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IN THE

Supreme Court of the United States

OCTOBER TERM, 1958

No. 444

PETROLITE CORPORATION, LTD.,

Petitioner,

vs.

THE UNITED STATES,

Respondent.

PETITION FOR A WRIT OF CERTIORARI
to the United States Court of Claims

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Abbreviations and Style

App..... The Appendix attached hereto is cited as "App.", followed by the *page* number of the Appendix.

R..... The Certified Transcript of the Record is cited as "R.", followed by the *page* number thereof.

Pl. Ex. and Df. Ex..... Petitioner's and respondent's exhibits in the Court below are cited respectively as "Pl. Ex." and "Df. Ex.", followed by the official *exhibit number* assigned to each. The Transcript includes the entire original record in each of the two cases.

Italics..... All italics in quoted material have been editorially supplied.

IN THE

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PETROLITE CORPORATION, LTD.,

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THE UNITED STATES,

Respondent.

PETITION FOR A WRIT OF CERTIORARI to the United States Court of Claims

To the Honorable, the Chief Justice and the Associate Justices of the Supreme Court of the United States:

Petitioner prays that a writ of certiorari issue to review a judgment of the United States Court of Claims entered on May 7, 1958 in two closely related cases, bearing the same title, which were tried and decided together. The judgment denied petitioner's right to recover and dismissed its petitions.

Opinion Below

The Opinion of the Court of Claims has not as yet been officially reported; it is reported unofficially at 161 F.Supp. 618. A copy of said Opinion, and of the Court's Findings of Fact, is bound herewith in the Appendix hereto.

Jurisdiction

The judgment sought to be reviewed was dated and entered on May 7, 1958. Timely motions for rehearing on the question here presented, filed on June 6, 1958, were denied without opinion on July 16, 1958. The jurisdiction of the Supreme Court is invoked under 28 U.S.C., Sec. 1255(1).

Question Presented

Is the United States obligated to pay to petitioner reasonable compensation for petitioner's valuable processes and for its secret technical and process information and know-how, where such processes, information and know-how were furnished and disclosed to the United States by petitioner at the urgent request of the United States and upon its assurance that it would pay reasonable compensation therefor to petitioner?

Statement of Material Facts

These two cases seek enforcement of agreements by respondent to pay reasonable compensation to petitioner for certain processes and certain technical information and know-how which petitioner furnished and disclosed to respondent, at its urgent request and upon its assurance that it would pay such compensation, in connection with respondent's supply of oil refineries to the U.S.S.R. during World War II, first under the Second Protocol phase of such program and again under the Third Protocol phase thereof.[1]

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[1]The case dealing with the Second Protocol was identified below as C.Cls. No. 49996. The Third Protocol case was C.Cls. No. 49997.

Jurisdiction of the Court of Claims rested upon 28 U.S.C., Sec. 1491(4) relating to claims "against the United States founded upon any express or implied contract with the United States."

Prior to World War II, petitioner had developed and was the sole owner of certain valuable processes of widespread use in the petroleum industry, known as the "Petreco process of electrical dehydration" and the "Petreco process of electrical desalting" (Appendix pages 10-12).

Requisite to the operation of these processes, and to the design and construction of equipment employed therein, were certain specialized technical information and know-how defined as "Petreco technical and process information," which information was and is an asset of great value to petitioner (App. 10-11). Prior to the transactions mentioned below, said information and know-how were possessed and owned exclusively by petitioner, the benefit thereof being made available to petitioner's customers, without disclosure to them, through the agency of petitioner's trained engineers and technical personnel stationed throughout the area of its operations (App. 10-12).

Second Protocol Case

During World War II, respondent determined, for purposes deemed vital to the defense of the United States, to procure for its own account and then to furnish to the U.S.S.R. under the Lend-Lease Act certain petroleum refinery equipment and processes, together with the technical information and know-how requisite to their use and operation (App. 12-13). In October, 1942, in execution of what was known as the Second Protocol phase of this program, and acting through the Procurement Division of U. S. Treasury Department, respondent's duly author-

ized officers urgently requested petitioner to provide it with (1) the right to use the aforesaid Petreco processes, (2) certain Petreco dehydration and desalting equipment for employment of said processes, and (3) the Petreco technical and process information and know-how necessary for the installation and operation of said processes and equipment (App. 13).

While petitioner was reluctant to disclose, for the first time, its secret and confidential technical and process information and know-how, and fully advised Treasury Procurement concerning the irrevocable and unlimited consequences of such disclosure, petitioner was assured by respondent that respondent would provide reasonable compensation to petitioner for such disclosure and for the requested license of petitioner's processes, in addition to the purchase price of the equipment (App. 14-15).

With the understanding that it would receive such compensation from respondent, petitioner consented to the use of its processes and made a full disclosure of said information and know-how to respondent and to numerous Russian technicians and engineers, at respondent's request (App. 15-16). The information so disclosed was detailed and complete, and fully sufficient to permit the Russians not only to make unlimited use of the processes, but also to construct and operate the Petreco plants and to duplicate the same without limitation (App. 26-27, 31).

While petitioner fully performed its obligations to furnish said processes and to disclose said information and know-how, respondent refused to pay compensation for said processes and information, except to a limited extent under an 18 months' license contract providing for "part payment" of such compensation (App. 19). Petitioner

seeks determination of the amount of the reasonable compensation which was promised, and payment of the same, less the amount of said part payment. The Court of Claims dismissed the petition, holding that the foregoing facts did not constitute an agreement but were "negotiations" only (App. 3).

Third Protocol Case

In July, 1944, in execution of the Third Protocol phase of this refinery program, respondent further required a Petreco dehydration and desalting plant to be added to a refinery in a desert area near the Caspian Sea where no fresh water was available (App. 21-22). In accordance with respondent's request, petitioner conducted intensive research and developed a new and unique process known as "dual-stage counterflow electrical desalting," never before used in petroleum refining (App. 21-22).

Respondent urgently requested petitioner to furnish said new desalting process, as well as the Petreco process of electrical dehydration, and a specially designed Petreco dehydration and desalting plant, together with certain specially developed Petreco technical and process information relating thereto (App. 23-24). It was understood by the parties that in addition to respondent's purchase of the equipment, reasonable compensation would be paid by respondent to petitioner for said processes and information (App. 23-24).

In reliance upon respondent's assurance with respect to reasonable compensation, and with the understanding that such compensation would be paid to it by respondent, petitioner furnished said Petreco processes, including said dual-stage counterflow electrical desalting, and it also made a full and complete disclosure of the Petreco techni-

cal and process information necessary for the use thereof (App. 24). Said information was furnished by respondent to the U.S.S.R. and was sufficient to enable the U.S.S.R. not only to construct and operate the Third Protocol plant and processes, including said dual-stage counterflow electrical desalting process, but also to duplicate the same without further aid or supervision (App. 26-27, 31).

While petitioner has fully performed its obligation to furnish the Third Protocol Petreco processes, including the new process of dual-stage counterflow electrical desalting, and to disclose the Petreco technical and process information with respect thereto, respondent has made *no payment whatever* to petitioner for the processes and information so furnished and disclosed by it (App. 25).

Petitioner seeks determination of the amount of reasonable compensation for said processes and information, and payment of the same. The Court of Claims dismissed the petition, holding that "no agreement was entered into" between the parties (App. 10).

* * *

If petitioner should prevail, the two cases would proceed to a determination of the reasonable value of said processes and information, that issue having been reserved for future proceedings by stipulation.

REASONS FOR ALLOWANCE OF WRIT

I

The Judgment Below Is in Direct and Irreconcilable Conflict With Applicable Decisions of the Supreme Court.

Both cases present the same question. Because of its marked simplicity, the Third Protocol case will be discussed first.

1. The Third Protocol Case

The Court below concluded that in the Third Protocol case, "no agreement was entered into" between the parties (App. 10). In doing so, it disregarded its own Findings of these facts:

(a) Respondent urgently requested petitioner to develop and provide a new dual-stage desalting process for a desert refinery, to accompany the dehydration process (App. 21-22, 23).

(b) Petitioner conducted intensive research and did actually develop said new process and the necessary process information (App. 22).

(c) It was understood by the parties, and respondent agreed, that reasonable compensation would be paid to petitioner for said processes and information (App. 23-24), the procurement of which was duly authorized (App. 13).

(d) "In reliance upon [respondent's] assurance with respect to reasonable compensation, and with the understanding that reasonable compensation would be paid to it *by [respondent]*" petitioner provided said dual-stage process and its dehydration process) and furnished the technical information necessary for their use. (App. 24).

A more precise case of offer and acceptance cannot be imagined.

In deciding that there was no enforceable agreement or obligation, the Court of Claims ignored the following decisions of the Supreme Court:

(1) In *U. S. v. Palmer*, 128 U.S. 262 (1888), plaintiff presented his improvements on infantry equipment to a Board of Army officers which recommended their use. The improvements were adopted and used. The Supreme Court held:

> "The Government used the claimant's improvements with his consent; and, certainly, *with the expectation* on his part of receiving a reasonable compensation for the license. . . . We think that an implied contract fairly arose . . ." 128 U.S. 269.

(2) In *U. S. v. Berdan Firearms Mfg. Co.*, 156 U.S. 552 (1895), the Government used plaintiff's musketry improvements with his assent and *with the understanding* that it would pay for such use. Compensation was awarded:

> "These facts . . . show that the judgment of the Court of Claims . . . was founded upon a contract to which both parties assented. That no price was agreed upon . . . is immaterial . . . The question is whether there was a contract for the use, and not whether all the conditions of the use were provided for in such contract." 152 U.S. 569.

(3) In *U. S. v. Societe Anonyme des Anciens Etablissments Cail*, 224 U.S. 309 (1912), an ordnance device was used by defendant with the consent of the owner and *in contemplation* that compensation would be paid. The Court held that while there was "hesitancy and doubt as

to the amount and extent of the compensation," all of the elements of an agreement could be collected from the parties' conduct, even though the amount of compensation had not been fixed (224 U.S. 320).

With the law so clearly established, and under the facts so clearly found, one may wonder why the learned Court rejected petitioner's claim. The extraordinary brevity of the opinion with respect to the Third Protocol case (App. 9-10) suggests that because of consolidation with the more complex Second Protocol case, the Court did not give careful consideration to the Third Protocol transaction.

In dealing with the Third Protocol, the opinion steers away from the relevant facts:

(a) It says that ". . no license agreement was ever executed. ." (App. 9). That is true but of no moment,

(1) because while the amount and terms of compensation were never fixed by a formal agreement, they had not been so fixed in any of the foregoing Supreme Court cases, and

(2) because the Court found an understanding that "an agreement would be reached concerning compensation" (App. 23), that petitioner was so assured (App. 24), and that petitioner fully performed "in reliance upon [respondent's] assurance with respect to reasonable compensation, and with the understanding that reasonable compensation would be paid to it by [respondent]." (App. 24.)

(b) The Court also observes that "the evidence does not show that the [respondent] ever furnished this [Third Protocol] equipment to the U.S.S.R., or that it was ever

used by anyone." (App. 9-10). This is both immaterial and incorrect:

(1) because the information furnished was sufficient to permit Russian manufacture of all of the necessary equipment:

> "The information, drawings, and other data so furnished to the Russians were sufficient to enable the U.S.S.R. to *construct, duplicate, install and operate* Petreco plants, both the dehydration and the single-stage *or dual-stage desalting equipment*, without further aid or supervision" (App. 27); to the same effect are Fdgs. 29 and 37 (App. 26, 31), and respondent so stipulated (pages 6-7 of the Stipulation in C.Cls. No. 49997),

(2) because the Russians actually have subsequently produced, installed and operated a dual-stage desalting plant of the Third Protocol type, a fact established by uncontroverted evidence, including that adduced by respondent,[2] and

(3) because the actions seek compensation not for equipment, but for processes, technical information and know-how; since the information and know-how actually furnished were sufficient for construction of an unlimited quantity of equipment and for full use of the processes therein (App. 26-27, 31), non-delivery of equipment is of no significance.

It is apparent from the opinion, therefore, that in holding petitioner entitled to no compensation at all for the

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[2]Defendant's Exhibit 117 is an article in the Russian language, picturing and describing the actual Soviet operation of a dual-stage Petreco desalting plant. This article, by E. P. Kraevaya, was officially published in NEFTYANOE KHOZ, Volume 24, pages 58-64, on September 10, 1946. An English translation was provided in Plaintiff's Exhibit 9.

dual-stage and other valuable processes and information supplied to respondent at its urgent request and in reliance upon its assurance of payment, the lower Court did not clearly discern the essential facts within its own Findings as to the Third Protocol transaction.

It is equally apparent that the lower Court failed to apply the aforesaid controlling decisions of this Court, all precisely apposite to the facts as found.

2. The Second Protocol Case

Equally striking is the square conflict between the Second Protocol decision below and the applicable Supreme Court decisions.

The Court of Claims concluded, with respect to the Second Protocol transaction, that the following facts, clearly stated in its Findings, did not create an obligation by respondent to pay reasonable compensation to petitioner:

(a) In October, 1942, petitioner was informed that respondent *"desired to procure"* from petitioner and *"urgently required,"* petitioner's processes and process information (App. 13), such procurement to be for respondent's "own account," with delivery by it to the U.S.S.R. (App. 12).

(b) In response, petitioner explained the consequences of respondent's request, including the necessarily irrevocable disposition of its previously secret information and the resultant unlimited Soviet license to use its processes (App. 14-15).

(c) Respondent's officers, duly authorized (App. 13), thereupon *"assured* [petitioner] that while they could not at that time agree to pay a specific amount by a specific date, *reasonable compensation would ultimately be paid*

to [petitioner] for the processes and process information." (App. 15).

(d) Thereafter, petitioner, *"with the understanding* it would receive reasonable compensation *from the [respondent], consented* that [respondent] could use the aforesaid Petreco processes, *and furnished* the necessary Petreco technical and process information to [respondent] . . ." (App. 15-16).

While the lower Court characterized these facts as "negotiations" only (App. 3), the facts so found clearly establish a complete agreement of the exact type uniformly recognized and enforced by this Court in the decisions discussed on pages 8 and 9, *supra*. In none of them, either was there any agreement to pay "a specific amount by a specific date," but in each of them the United States was held to be obligated for payment of reasonable value, as determined by the Court.

The Court's Findings respecting the Second Protocol are virtually identical with those of the Third Protocol: (1) request for processes and information, (2) assurance of reasonable compensation therefor, (3) furnishing of processes and information as requested, (4) obligation to pay said reasonable compensation.

Peculiar to the Second Protocol case, however, was the subsequent execution by the parties of a written 18 months' license agreement of May 28, 1943, providing for "part payment" for the Second Protocol processes and information [App. 19, R. 17-24]. While respondent's aforesaid promises and assurances to petitioner were for compensation reasonable in relation to the requested full disclosure of the previously secret information and to the foreseeable uses of the processes under an unlimited license, unrestricted as to use in specific equipment or for

a definite period of time (App. 14-15), said 18 months' license agreement provided compensation only for a *limited period of time* and based on the capacity of *specific plants* [App. 15, 19, R. 20].

Moreover, as provided in said 18 months' license agreement, the payments to be made by respondent thereunder were only "part payment" (App. 19) and were "*not* accepted or recognized by Petrolite as full or adequate compensation" (App. 18). And petitioner carefully defined and retained its rights *against respondent* "for other and additional compensation" with respect to said processes and information (App. 20).

Although the express language of the agreement itself repeatedly limited its scope and purpose,[3] and although it specifically did *not* provide for full payment of the reasonable compensation previously agreed to be paid, but was in only "part payment" of a total amount to be determined later (App. 15), to-wit: after cessation of hostilities [R. 50], the lower Court's opinion with respect to the Second Protocol is largely confined to a discussion of this limited, "partial" and "temporary" instrument which it treats as the *sole* agreement[4] of the parties, in disregard of the complete, pre-existing agreement as to reasonable compensation unconfined to use in any particular equip-

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[3]The limited character of the written agreement was recognized by the Comptroller General and by the Foreign Liquidation Commissioner, both of whom described it as a "partially paid-up license agreement" of "temporary form", *as distinguished from* a "fully paid-up license agreement" of "permanent form" [Deft. Exs. 106, 107].

[4]The parol evidence rule, invoked by the Court (App. 3), applies only to matters within the scope and purpose of the written instrument; writings do not integrate those things which they are not intended to cover. *Fox Midwest Theatres v. Means*, 221 F. 2d 173 (8th Cir., 1955). And here the two agreements were not even contemporaneous.

ment or for any specific period of time (App. 14-15) and paid only in part by the subsequent 18 months' agreement relating to certain equipment.

This conclusion derives directly from the Court's inattention to the controlling decisions of the Supreme Court, an error which pervades the entire opinion and leads to a decision wholly at variance with the language of the 18 months' license contract and with the antecedent assurances, understandings and agreement set out in the Findings.

As in the Third Protocol case, therefore, the judgment below is in direct and irreconcilable conflict with Supreme Court cases which establish that *under the facts as found*, there was a fully enforceable, pre-existing agreement between the parties, much broader in scope than the later 18 months' license agreement which partially implemented it. Though cited to the lower Court (*inter alia*, in Part II of each Brief in Support of Motion for Rehearing), these decisions were wholly ignored in the opinion and judgment.

II

The Question Presented Is of Special Importance in the Conduct of Business Between Government and Industry.

The nation is becoming increasingly dependent upon modern industry for the complex and specialized products and processes and for the highly valued and closely guarded secrets of technical know-how[5] which are essen-

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[5]The expression "know-how" is used in industry to denote specialized process and operating techniques and methods, design and technical data and instructions, unpatented processes, inventions and formulae, and other scientific and engineering skills, arts, experi-

tial to maintenance of the garrison state. In corresponding ratio, the patterns and principles of business practice between the Government and industry are of growing importance, particularly as other nations are permitted or invited to share the fruits of American technological genius.

The judgment of the Court of Claims strikes at the heart of this indispensable copartnership. While the Supreme Court has consistently ruled that the Government is responsible for reasonable but previously indefinite compensation for processes and information which it desires or needs, which it requests and which are thereupon supplied to it, the lower Court has decided otherwise.

In doing so, it has ignored its own Findings as to petitioner's acts of cooperation with the Government in reliance upon the latter's assurance of reasonable but indefinite compensation, it has declared that any such assurance would have been unreasonable (App. 5), and it has deserted the great principle that "the United States does business on business terms." *United States v. National Exchange Bank*, 270 U.S. 527, 534 (1926).

If this principle is to be narrowed, and if agreements to pay reasonable but indefinite compensation are "unreasonable" and no longer to be honored, so important a doctrine should be announced by this Court. Otherwise, the decision below should be set aright for the guidance of the Court of Claims and of those who must resort to it for the determination of Governmental responsibilities.

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ence and knowledge. It is an asset "eagerly sought after by industry . . . and one of its most highly prized possessions." Beach, A Question of Property Rights: The Government and Industrial Know-How, 41 Amer. Bar. Assn. Journal 1024.

If the Government may induce industry to provide it with its valuable know-how, techniques and processes upon assurance of payment of the reasonable value thereof, and if it may thereafter ignore or be relieved of such commitments, industry will be unable to cooperate without first securing a formal written agreement, a measure which may not be feasible under war or other conditions requiring expeditious action.

The matter is important because petitioner is but one of many persons and firms who have been called upon, and who will be called upon with growing frequency, to supply the vital and often urgent needs of this nation and of its friends and allies around the world.

Conclusion.

Petitioner has no recourse but to the Supreme Court for relief from the error and injustice of the decision below.

For that reason, and because of the clear and direct conflict with the decisions of this Court and of the significant impact upon the administration of Government procurement functions, it is respectfully submitted that the cases are worthy of review and that this petition for a writ of certiorari should be granted.

Everett B. Laybourne,
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Of Counsel

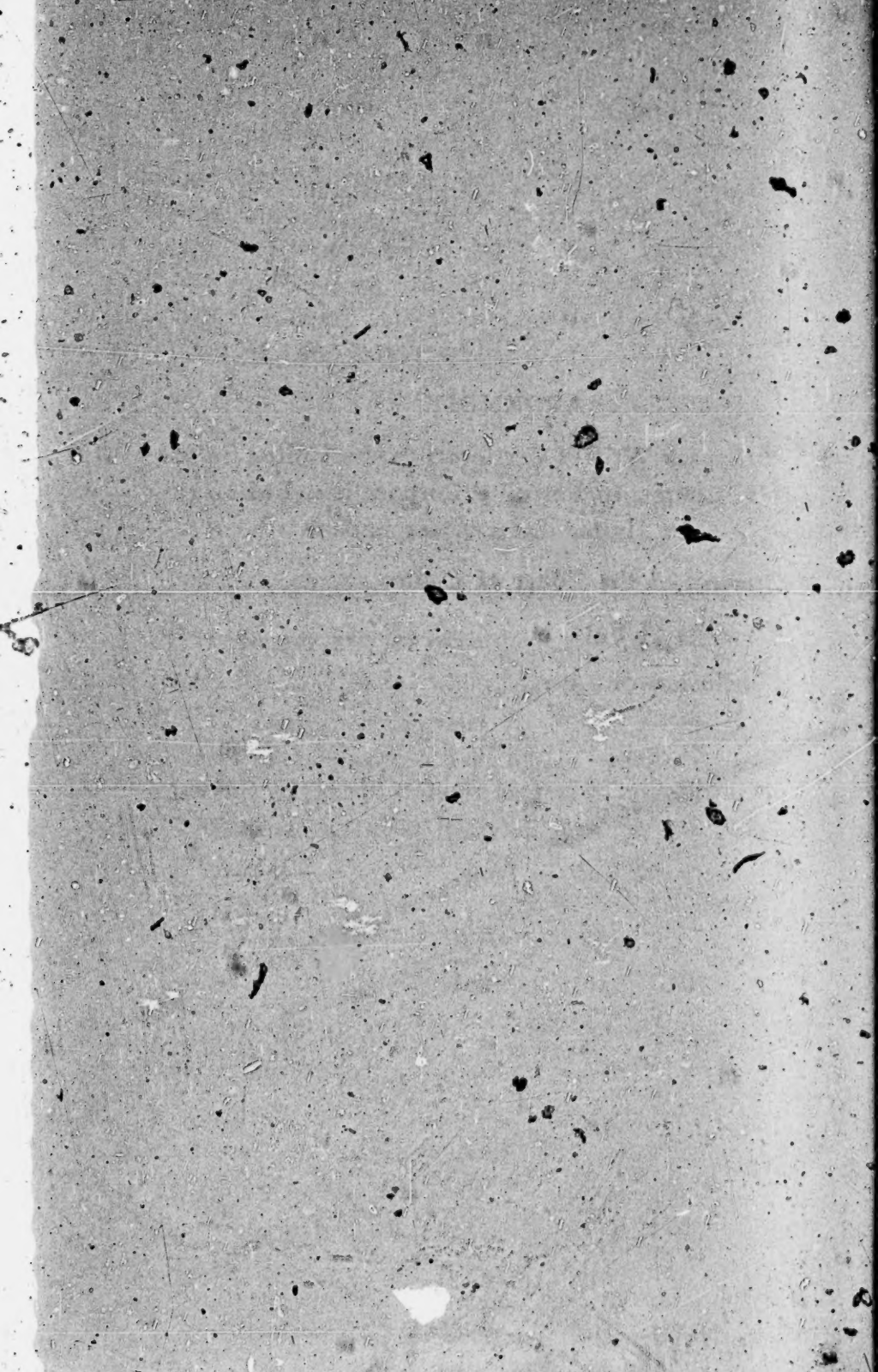
APPENDIX

to Petition for Writ of Certiorari to the United States Court of Claims, in Petrolite Corporation, Ltd., Petitioner, v. The United States. Respondent.

Opinion of the Court of Claims..... 1

Findings of Fact..... 10

Conclusion of Law..... 34



In the United States Court of Claims

Nos. 49996 and 49997

(Decided May 7, 1958)

PETROLITE CORPORATION, LTD., v. THE UNITED STATES

Mr. Everett B. Laybourne for plaintiff. *Messrs. Schultheis & Laybourne* were on the briefs.

Mr. G. M. Paddack, with whom was *Mr. Assistant Attorney General George Cochran Doub*, for defendant.

OPINION

WHITAKER, *Judge*, delivered the opinion of the court:

Pursuant to the Lend-Lease Act of March 11, 1941 (55 Stat. 31; 22 U. S. C. 411-423), the United States and the Union of Soviet Socialist Republics on June 11, 1942, entered into what is called the "Mutual Aid Agreement," otherwise known as the Second Protocol. Under it the United States engaged to continue to supply the U. S. S. R. with defense articles. It covered the period July 1, 1942 to June 30, 1943. It was followed by the Third Protocol, covering the succeeding year.

Case No. 49996 concerns equipment furnished under the Second Protocol, and No. 49997 concerns equipment furnished under the Third Protocol.

Russia desired desalting and dehydrating equipment for use in the refinement of crude petroleum, and instructions for their use. In order to furnish this to Russia, the United States entered into negotiations with plaintiff for their purchase and for licenses to use the patents and secret processes connected with their use, which plaintiff had developed. (On the equipment and on some of the processes connected

with their use plaintiff had secured patents. Those on which patents had not been secured, plaintiff kept secret, so far as it could.)

As a result of these negotiations, plaintiff, on January 5, 1943, submitted to defendant three proposals for the supply of its dehydrating and desalting equipment. On January 19, 1943, defendant accepted the proposals, with an amendment, and issued to plaintiff three purchase orders therefor, Nos. E 4025, E 8003, and E 10,003, stating a total consideration of $424,358.00, which has been paid.

Plaintiff's proposals for the sale of this equipment recited:

> This proposal does not include any rights to use the Petreco dehydrating and desalting processes, or any patent rights, licenses or inventions, patented or unpatented, relating thereto or to the equipment herein described, nor does this proposal include any engineering or technical data, information, instructions, or advice relating thereto, it being understood that Procurement Division, Treasury Department will make arrangements and provide compensation satisfactory to Petrolite and Procurement Division, Treasury Department for the use of such processes, etc. with the above described equipment in the U. S. S. R., the engineering to be provided by Petrolite under this proposal being limited to the design and supply of the equipment herein described.

This provision of the proposal was accepted by defendant, but the purchase orders contained an article, IV (o), which had not been contained in the proposal, which required plaintiff to furnish "general operating instructions for the equipment," as a part of the purchase price.

Subsequently, in July 1943, plaintiff and defendant entered into a contract, antedated May 28, 1943, for a license to use, in the Union of Soviet Socialist Republics, the Petreco processes of electrical dehydration and the Petreco process of electrical desalting, in connection with the operation of the equipment purchased. The license was for a period of 18 months, with an option to renew it for a period to end with the cessation of hostilities or of Lend-Lease operations, whichever was later. The consideration for the license was the payment of one-half cent (½¢) per barrel per day for the aggregate designed treating capacity of each piece of dehydration equipment sold, and one-half cent (½¢) per

barrel per day of the aggregate designed treating capacity of each piece of desalting equipment sold: This was the compensation provided for the license for the 18 months' period. For any subsequent operation under an extension of the license exercised by the United States, the defendant agreed to pay the sum of $15,208.33 for each month of operation.

At the expiration of the 18 months' period, the United States notified plaintiff that it would not exercise its option to extend the license beyond the 18 months' period. All payments due for the license for the 18 months' period have been paid. The equipment is still in the possession of the U. S. S. R. Whether or not the U. S. S. R. continued to use the equipment and the patents and other processes covered by the license does not appear, but it may be presumed that it has continued to do so.

It goes without saying that the rights of the parties are determined by the written documents executed, and not by what may have been said in the negotiations culminating in their execution. *Union Paving Co.* v. *United States*, 126 C. Cls. 478, 489; *Manufacturers Casualty Ins. Co.* v. *United States*, 105 C. Cls. 342.

The license set out the amounts to be paid by the defendant for the use of the Petreco processes during the 18 months' period, and for any extension thereof. These amounts have been paid. The license calls for the payment by the United States of nothing further. On the other hand, it expressly exonerates the United States from additional liability.

The fourth section of the license agreement provided that, subject to the provisions of section fifth,—

> * * * the Government shall be relieved from the obligation to make all payments specified in Sections Second and Third hereof except those then due, and the license granted herein shall be terminated if
>
> (1) * * *
>
> (b) The operation thereof under Lend-Lease has been terminated; * * *

(Section second provided for the payments to be made during the 18-month period, and section third, for the payments during any extension thereof.)

When the defendant notified plaintiff it would not exercise its option to extend the period of the license, the operation under Lend-Lease was terminated, and the United States was exonerated from making further payments for its use. However, if the U. S. S. R. continued to use the processes, it was liable to plaintiff to compensate it therefor, as provided in section fifth. This section provides:

> FIFTH: Nothing shall waive, limit or prejudice in any way the claims or rights which PETROLITE shall have for other and additional compensation with respect to or as a result of the delivery or other disposition by or for the GOVERNMENT of said equipment or units or the communication or other disposition by or for the GOVERNMENT of any information relating to the Petreco process of electrical dehydration or the Petreco process of electrical desalting, or to said equipment or units, or to the use or operation thereof, or with respect to or *as a result of the use or operation after the termination of the license herein granted* of said processes or either of them; or of any such information, or of any of said equipment or units, or with respect to or as a result of the use of said processes or either of them, or of any such information otherwise than in connection with the operation of said equipment and units, or with respect to or as a result of the use of said processes or of either of them or of any of such information, or the use or operation of any of said equipment or units *otherwise than in accordance with the license herein granted*, and PETROLITE reserves all rights it may now or hereafter have for such other and additional compensation at law or in equity and/or under Section 7 of the Lend-Lease Act and Article IV of the Mutual Aid Agreement between the Governments of the United States and of the U. S. S. R. dated June 11, 1942, and other terms and provisions of such Act and Agreement, and/or under any other law, act, agreement or treaty to which the GOVERNMENT is or may be subject or a party; * * * [Italics ours.]

Article IV of the Mutual Aid Agreement provides:

> If, as a result of the transfer to the Government of the Union of Soviet Socialist Republics of any defense article or defense information, it becomes necessary for that Government to take any action or make any payment in order fully to protect any of the rights of a citizen of the United States of America who has patent rights in and to any such defense article or information, the Government of the Union of Soviet Socialist Re-

publics will take such action or make such payment when requested to do so by the President of the United States of America.

Under this article, the U. S. S. R. is liable for a continued use of the patents and processes covered by the license beyond the 18 months' period, upon notification from the United States, as required by the above article.

On March 3, 1947 the Lend-Lease Administrator advised plaintiff that the Office of Foreign Liquidation Commissioner, Department of State, on February 10, 1947, confirmed by subsequent letter of February 13, 1947, had advised the Soviet Government that if it made use of the processes covered by the license after the expiration of the 18 months' period, it would become liable to pay to plaintiff "whatever royalties may become due by reason of such use." The letter also made "a formal request to the Soviet Government to make directly to you [the plaintiff] such payments as it may become liable to make under the circumstances outlined above." The letter further advised plaintiff that the Soviet Government had informed the Department of State that an oil mission would shortly visit the United States to make a license agreement for oil refining processes on behalf of the Soviet Government.

Thereafter, defendant repeatedly requested the U. S. S. R. to compensate plaintiff, without success.

There can be no question that the U. S. S. R. is liable for further use of the patents and processes, but nowhere do we find an agreement on the part of the United States that it will pay plaintiff additional compensation if Russia refuses to do so. The United States was given the option to extend the license, but it refused to do so, thereby negativing any obligation on it to pay for further use of the equipment. In addition, Article IV of the license expressly relieved it from the obligation to make the payment specified in sections second and third upon termination of operations under Lend-Lease. These operations were terminated when defendant refused to extend the period of the license.

For the period covered by the license the payments to be made by the United States are set forth in sections second and third, and, of course, it cannot be reasonably insisted that the United States agreed to pay some indefinite sum in

addition thereto; in fact, such an intention is expressly negatived by the proviso to the fifth section, reading:

> * * * provided, however, that nothing contained in this Section Fifth shall entitle Petrolite to payments for the use of the processes or either of them in said units hereinabove mentioned, to the extent herein licensed, computed at a rate in excess of the rates used to compute the payments specifically provided for herein.

Section fifth is verbose and complex, but, broken down, it amounts to this: It undertakes to reserve the "claims or rights" of plaintiff to "additional compensation" "as a result of the use or operation *after the termination of the license herein granted*," [Italics ours] or for any use "otherwise than in accordance with the license herein granted." And plaintiff expressly "reserves all rights it may now or hereafter have for such other and additional compensation at law or in equity * * *."

If we stop there, what right has plaintiff against the United States for use after the termination of the license? The answer must be, none, because the United States declined to exercise its option to renew the license, and terminated operations under Lend-Lease. In no part of the license agreement is there any provision for payments except those set out in sections second and third.

It appears to have been the purpose of section fifth to reserve to plaintiff the right to demand additional compensation from the U. S. S. R. for use after termination of the license period, because the reservation goes on, after the language quoted above, "and/or under section 7 of the Lend-Lease Act and Article IV of the Mutual Aid Agreement * * *."

Under Lend-Lease and the Mutual Aid Agreement, Russia agreed to make further payments "when requested to do so by the President of the United States of America"; but there is no provision for payment by the United States, if Russia fails to do so.

Plaintiff was evidently fearful that the U. S. S. R. would continue to use its processes, after the termination of the license, as well it might have been, and it wanted to reserve its claim for additional compensation therefor; but nowhere is there an agreement on the part of the United States to pay

for such use. All the United States was obligated to do was to use its good offices to induce Russia to do so, and this it has done.

We are of opinion that the United States is liable under the license only for the payments accruing during the 18-month period, or under any extension thereof requested by the United States, and that for any use thereafter, as well as for any additional compensation for use during the 18-month period, the U. S. S. R., and the U. S. S. R. only, is liable.

The second section of the license agreement reads in part:

> As part payment and consideration for said eighteen (18) months' license and for the information disclosed by Petrolite the Government shall and hereby agrees to pay to Petrolite the sum of * * *

the amounts thereafter set forth. The use of the expression "as part payment" somewhat confuses the matter, but the license contains no provision for any other payment by the United States, and the fourth and fifth sections thereof expressly negative the idea that the United States is liable for any payments in addition to those provided for in sections second and third. However, Petrolite does reserve the right to collect additional compensation from the U. S. S. R., if it is entitled to do so under the Lend-Lease Act and the Mutual Aid Agreement, or otherwise.

The following excerpts from the testimony of Mr. Harry E. Larsen, Assistant Chief Counsel for Treasury Procurement, and of Mr. A. J. Walsh, the contracting officer, confirms this construction of the agreement. Mr. Larsen testifies:

> 43. Q. Was there ever any intent or expectation on your part, or, as far as you know, on the part of any of the other Government people involved, that more compensation was to be paid under this license contract at some possible future date?
>
> A. Not——
>
> 44. Q. Except outside of that option which we have referred to?
>
> A. Nothing except as provided by the option (Hill, vol. VI, p. 1177).
>
> In so far as I knew at that time, we made it most definitely clear that the payment that is provided for in that contract was all that we agreed to b[illegible] United States Government to pay.

Mr. Schultheis (Petrolite's representative) repeatedly raised the proposition that this was a unique situation; that it would be possible for the Russians, once they were in possession of one such plant, to duplicate it many times.

And also, in addition to that matter of duplication, he strongly made the point that it would be possible for the Russians to use this plant, or the duplicates of it, over a much longer period of time than was covered by this contract.

And it was definitely stated by us that we had no authority whatsoever to give any consideration to this question of duplication or use beyond the term which the contract was intended to cover, and we made it definitely clear in our conferences and meetings that we could not, and would not agree to be liable for any further payments on the part of the United States Government for such extra use.

Mr. Walsh testified:

86 X Q. I believe you testified your understanding of this contract was that any further payments thereunder would be adjusted under Section 7 of the Lend Lease Act—is that correct?

A. That is correct.

87 X Q. Did you mean to say that that is the only way under which any further payments were to be made under this contract, other than the extension which we have——

A. That is my understanding, sir. Yes, sir.

Mr. Laybourne. I see.

88 X Q. Do you see anything in the contract that says that?

A. Well, as I read the thing, I thought that was what it said, sir. On Page 19, sir, it says that——

89 X Q. What language is it on Page 19?

A. The language which starts:

Whereas the payments to be made by the Government as herein provided are not accepted or recognized by Petrolite as full or adequate compensation, but are made without limitation of or prejudice to the rights of Petrolite with respect to other and additional compensation, the matter of which is being left for future determination in accordance with rights of Petrolite at law or in equity and/or in accordance with applicable laws and provisions made thereunder, including without limitation, Section 7 of the Lend-Lease Act and Article IV of the Mutual Aid Agreement between the Governments of

the United States and of the U. S. S. R., dated June 11, 1942, which provides that:

And it goes on.

Mr. LAYBOURNE. All right.

90 XQ. Do you interpret that to mean that the only relief that Petrolite might look forward to would be under Section 7?

A. I think, sir, that was our plan at that time—yes, sir.

91 X Q. You say that, in spite of the fact that you read the words "including without limitation"?

A. Well, my impression was that the position we took at that time in our negotiation was always that your recourse lay under Section 7 of the Lend Lease Act.

It is true that Mr. Schultheis takes a contrary view, but it is inconceivable to us that the license should provide for the payments to be made during the period of the license, and for any extension thereof, and that the licensee should be liable for further payments in addition to those expressly provided for. Nowhere does the Government agree to pay for the use of the processes after the termination of the license and any extension of it.

We cannot believe the agents of the Government intended to make it liable for a use by another for a time without limit.

It is unfortunate, of course, that the plaintiff has to look alone to the U. S. S. R. for further compensation, but in this respect it fares no worse than other people who have dealt with that Government, including the defendant itself.

2. In case No. 49997 plaintiff sues for an amount it claims to be due under the Third Protocol between the United States and the U. S. S. R. However, no license agreement was ever executed between the plaintiff and the defendant with reference to the equipment to be furnished under the Third Protocol.

On November 17, 1944 plaintiff submitted a proposal for the supply of Petreco dehydration and Petreco desalting equipment, which was followed by purchase orders requiring plaintiff to furnish general operating instructions for the use of the equipment. The equipment purchased was delivered to defendant by plaintiff, but the evidence does not show that the defendant ever furnished this equipment to the U. S. S. R.,

or that it was ever used by anyone. The equipment itself has been paid for.

We are of opinion that the United States has paid plaintiff all that it obligated itself to pay for the equipment purchased under both protocols and all that it obligated itself to pay for the use of the equipment purchased under the Second Protocol, and that it is not obligated to make any payment for the use of the equipment purchased under the Third Protocol, because no agreement was entered into between plaintiff and defendant for compensation for any use, nor has any use been shown.

Plaintiff's petitions will, therefore, be dismissed.

It is so ordered.

LARAMORE, *Judge;* MADDEN, *Judge;* LITTLETON, *Judge;* and JONES, *Chief Judge*, concur.

FINDINGS OF FACT

The court, having considered the evidence, the report of Trial Commissioner Roald A. Hogenson, and the briefs and argument of counsel, makes findings of fact as follows:

1. Plaintiff is, and at all times hereinafter mentioned was a domestic corporation organized and existing under and by virtue of the laws of the State of Delaware with its principal office in the State of Delaware at 100 West Tenth Street in the city of Wilmington.

2. By formal stipulation of the parties, approved by the commissioner, the trial of these cases was limited to the issues of law and fact relating to the right of the plaintiff to recover.

3. At all times hereinafter mentioned plaintiff was, and has been for many years past, and still is, engaged in the business of developing, acquiring, owning, using, licensing, and authorizing the use by others of processes, technical and process information, inventions, improvements, and patents in the field of petroleum processing and preparation, and more particularly in connection with the processes of dehydration and desalting of petroleum.

4. Prior to the transactions hereinafter described, as a result of extensive and specialized research, development and experience in the field of electrical dehydration and electrical desalting of petroleum, plaintiff had developed the Petreco

process of electrical dehydration, the Petreco process of electrical desalting and certain specialized Petreco equipment employed in the operation of the processes. These processes and equipment require for their successful use, design, construction, installation and operation certain specialized process and operating techniques and methods, engineering, design and technical data, information, instructions, know-how and peculiar knowledge, possessed and owned exclusively by plaintiff, as well as plaintiff's inventions, discoveries and improvements, patented and unpatented, relating thereto.

5. As hereinafter used, the terms "Petreco process of electrical dehydration," "Petreco process of electrical desalting," and "Petreco processes" include the aggregate of the processes, the inventions, discoveries and improvements, and the patents and applications for patents utilized in the design, construction and operation of the respective Petreco process, or processes, and equipment, and the term "Petreco technical and process information" includes the specialized process and operating techniques and methods, engineering, design and technical data, information, instructions, know-how and peculiar knowledge, possessed and owned exclusively by plaintiff, all of which is necessary and essential for the successful use, design, construction, installation and commercial operation of the aforesaid Petreco processes and Petreco equipment.

6. The Petreco technical and process information is, and at the time of the transactions hereinafter described was secret or confidential in nature, and constitutes, and did constitute an asset of great value to plaintiff. In the usual conduct of its business, plaintiff does not, and, except in the transactions between plaintiff and defendant described herein, has not disclosed the Petreco technical and process information to its process licensees or to others outside of its employ. This information has always been and is furnished and made available to plaintiff's licensee customers in their use of the Petreco processes and Petreco equipment, without disclosures to them, through the agency of plaintiff's trained engineers and technical personnel, stationed throughout the area of its operations and providing direct personal attention to and responsibility for plant installation, plant operating

problems, and continuing efficient performance of the Petreco processes and Petreco equipment. Those of plaintiff's employees who acquire the Petreco technical and process information do so in a fiduciary capacity, and they are, and for many years have been, contractually bound and obligated not to disclose any part of this information to persons outside of plaintiff's employ or otherwise except as their respective duties necessarily require.

7. The Petreco processes are, and at the time of the transactions herein mentioned were, and for a number of years prior thereto had been, well known to and in widespread use in the petroleum industry in the United States, Canada, and Venezuela. The Petreco process of electrical dehydration and the Petreco process of electrical desalting are and were terms used in common speech throughout the industry. Prior to World War II the Petreco processes had gained recognition as providing one of the most efficient means for effecting the removal or reduction of salt and water. The processes and the Petreco technical and process information had attained great value, and compensation for the use of the processes and information was computed and paid to plaintiff on the basis of the volume of petroleum treated and processed. This compensation constituted approximately 95 percent of the income of the Petreco Division of plaintiff corporation at and for a number of years prior to the time of the transactions with the defendant.

8. During World War II defendant determined, in prosecution of the American war effort and for purposes deemed important in the interest and vital to the defense of the United States, to procure for its own account and then to furnish to the Government of the Union of Soviet Socialist Republics, under and pursuant to the Act of March 11, 1941, 55 Stat. 31, 22 U. S. C. 411–423, sometimes known as the Lend-Lease Act, certain petroleum refining equipment, facilities and processes, including catalytic cracking processes, together with rights to use and operate the same, and all of the know-how and technical data and information necessary to erect, maintain and operate said equipment, facilities and processes, the same to be utilized in the treatment of certain Russian crude oils and in the production of aviation gasoline, lubricating oil and other petroleum products in the U. S. S. R.

In furtherance of that general project, and in accomplishing the foregoing objectives, defendant looked to the American petroleum industry to provide and sell to it the aforesaid equipment, facilities, processes, licenses, know-how and technical data and information. The Procurement Division of the United States Treasury Department, hereinafter called Treasury Procurement, was duly authorized to contract for, procure and purchase the plants, processes and information for and on behalf of defendant.

9. Completion of the project was considered and declared by defendant to be of the highest importance and urgency, the President of the United States having himself directed that the matter proceed with all possible dispatch. Procurement of requisite material was effected under Special Direction, Urgency No. 5, one of the highest preference ratings assigned to any wartime project.

10. On or about September 22, 1942, the duly authorized and appointed officers and agents of Treasury Procurement were advised by Mr. Oscar Cox, General Counsel for Lend Lease Administration, that payments could properly be made to American companies for information useful in establishing oil refineries in the Soviet Union, the price to be paid therefor to be determined by bargaining and to represent the fair and reasonable value of the information revealed.

11. In the execution of this refinery program, and on or about October 14, 1942 and thereafter, plaintiff was advised by the duly authorized and appointed officers and agents of Treasury Procurement that defendant desired to procure from plaintiff, and urgently required, (a) the Petreco dehydration and desalting equipment necessary for the employment of the Petreco process of electrical dehydration and the Petreco process of electrical desalting in certain specified petroleum refineries, (b) the right to use these processes, and (c) the Petreco technical and process information necessary for the design, construction, installation, use and operation of the Petreco processes and Petreco equipment. These processes and technical and process information are and at all times herein mentioned were unique in character and not available to defendant or to the U. S. S. R. or procurable by either of them from any source other than plaintiff.

Prior to the commencement of negotiations between the plaintiff and Treasury Procurement, the plaintiff, through Foster Wheeler Corporation, had communicated with representatives of the U. S. S. R. concerning the nature of and the availability of the Petreco processes and equipment for purchase and use in the U. S. S. R., and had submitted a proposal in connection therewith, but plaintiff did not disclose its Petreco technical and process information.

12. Plaintiff was further advised by the aforesaid officers and agents of Treasury Procurement that E. B. Badger & Sons Company was acting as the duly designated and appointed agent of Treasury Procurement under and by virtue of a contract known as Contract DA–TPS–17000, that three Petreco dehydration plants and three Petreco desalting plants were to be procured and constructed by or for defendant for installation and operation within the territory of the U. S. S. R. as part of the Russian refinery program under the Lend-Lease Act, that procurement by defendant of all material and equipment would be effected by and through the E. B. Badger & Sons Company but that compensation for the right to use the Petreco processes and for the Petreco technical and process information would be separately provided by Treasury Procurement.

13. Plaintiff was further informed by the Treasury Procurement officers that the Russian refinery program was required by the defendant for the production in Russia of aviation gasoline and other products, and that installation and operation of the refineries within the U. S. S. R. was a matter of highest urgency, and there was a Presidential directive that all equipment be on shipboard by the middle of 1943.

14. The Treasury Procurement officers advised plaintiff that they could not at that time negotiate an agreement for compensation for use of processes and for process information, although they would proceed to negotiate the purchase price for equipment and engineering. Plaintiff's representative then advised them of the value to plaintiff of the Petreco processes and the Petreco technical and process information, the secret and confidential nature of this information, the compensation paid to plaintiff in the usual course of its business for the use of the processes and for the benefit

of this information, and the importance of such compensation to plaintiff's corporate economy. Plaintiff further stated that fulfillment of defendant's proposed program would require disclosure by the United States to the U. S. S. R. of all of the Petreco technical and process information, that such disclosure would constitute an irrevocable disposition of this information to the Russians without possibility of recovery of the same from them, that possession of this information would enable the Soviet petroleum industry to duplicate the equipment utilized in the operation of the Petreco processes and to use these processes without limitation, that the U. S. S. R. would thereby acquire from the defendant both the means, and in practical effect an unlimited license, to use the processes to the full extent of the Soviet oil potential requiring dehydration and desalting, and that accordingly, plaintiff could not comply with defendant's requirements without an agreement as to what compensation defendant would pay for such disclosure and license and as to when such compensation would be paid.

15. The Treasury Procurement officers thereupon reiterated the war urgency of the project, asserted that it was necessary that defendant immediately have the Petreco processes and Petreco technical and process information, and assured plaintiff that while they could not at that time agree to pay a specific amount by a specific date, reasonable compensation would ultimately be paid to plaintiff for the processes and process information.

Plaintiff was further advised by the Treasury Procurement officers that they were considering the early negotiation of license agreements with all of the various owners of processes to be employed in the Russian refinery program, the agreements to provide payment for process information for a period of time limited to their estimate of the remaining period of hostilities, and based upon the rated capacity of the specific plants to be furnished.

16. Thereafter, plaintiff, with the understanding it would receive reasonable compensation from the defendant, consented that defendant could use the aforesaid Petreco processes, and furnished the necessary Petreco technical and process information to defendant for use by or for the defendant in the design, construction, installation and operation

of the Petreco dehydration and desalting plants, and in the employment of the Petreco processes therein.

17. Plaintiff submitted under date of January 5, 1943, three proposals concerning the supply of Petreco dehydration and Petreco desalting equipment to Treasury Procurement, acting by and through its duly designated and appointed agent, E. B. Badger & Sons Company, each of these proposals relating to a Petreco plant containing equipment necessary for the employment of the Petreco process of electrical dehydration and the Petreco process of electrical desalting in a particular petroleum refinery. Thereafter and on or about January 19, 1943, these proposals were fully accepted by defendant in writing, and the three contracts were designated as Purchase Orders Nos. E 4025, E 8003 and E 10003.

Purchase Order E 4025, respecting Refinery No. 3, Boguruslan crude, included six Petreco dehydration units and six Petreco desalting units having a designed electrical dehydration treating capacity of 10,000 barrels per day, and a designed electrical desalting treating capacity of 10,000 barrels per day, for the lump sum price of $84,872.

Purchase Order No. E 8003, respecting Refinery No. 5, Ishimbaev crude, included twelve Petreco dehydration units and twelve Petreco desalting units having a designed electrical dehydration treating capacity of 20,000 barrels per day, and a designed electrical desalting treating capacity of 20,000 barrels per day, for the lump sum price of $169,743.

Purchase Order No. E 10003, respecting Refinery No. 6, Sizran crude, included twelve Petreco dehydration units and twelve Petreco desalting units having a designed electrical dehydration treating capacity of 20,000 barrels per day, and a designed electrical desalting treating capacity of 20,000 barrels per day, for the lump sum price of $169,743.

Subsequently, and under date of June 24, 1943, purchase orders of the same numbers, acknowledging and confirming the aforesaid acceptance of the proposals, and incorporating these proposals therein, were issued. These contracts related to the supply to defendant of Petreco equipment necessary for the employment of the Petreco processes in the aforesaid petroleum refineries, and Article III, as amended, of each of these proposals read as follows:

This proposal does not include any rights to use the Petreco dehydrating and desalting processes, or any patent rights, licenses or inventions, patented or unpatented, relating thereto or to the equipment herein described, nor does this proposal include any engineering or technical data, information, instructions, or advice relating thereto, it being understood that Procurement Division, Treasury Department will make arrangements and provide compensation satisfactory to Petrolite and Procurement Division, Treasury Department for the use of such processes, etc. with the above described equipment in the U.S.S.R., the engineering to be provided by Petrolite under this proposal being limited to the design and supply of the equipment herein described.

By Article II B of each of its proposals, plaintiff agreed to provide "Engineering for the design, specification and supply of the equipment * * * including drafting" and "Plans, flow sheets, erection drawings and foundation drawings of the equipment."

18. Each of the foregoing purchase orders stated in effect that the purchase price included in addition to the equipment "the necessary engineering, design, drawings, and inspection of such equipment as herein provided", and Article II (B) thereof provided for "Engineering for the design, specification and supply of the equipment" and "Plans, flow sheets, erection drawings and foundation drawings of the aforesaid equipment."

Under Article IV (o) of each purchase order, plaintiff was required to furnish in writing "general operating instructions for the equipment", and it was provided that the cost of preparing, furnishing and delivering the instructions would be a part of the purchase price of the equipment and services. This IV (o) provision was not contained in any of plaintiff's proposals.

19. In July 1943, plaintiff and defendant entered into a contract in writing, antedated May 28, 1943, a true and correct copy of which is set forth as Exhibit A in the petition in case No. 49996, and is made a part of this finding as if fully set forth herein.

By this agreement designated DA-TPS-35692, plaintiff granted to defendant a nonexclusive indivisible license for use in the U. S. S. R. of the Petreco process of electrical de-

hydration and the Petreco process of electrical desalting in the units of equipment referred to in finding 17 hereof, having an aggregate designed electrical dehydration treating capacity of 50,000 barrels per day and an aggregate designed electrical desalting treating capacity of 50,000 barrels per day. It was agreed that the payments were to be computed at the rate of one-half cent per barrel per day on each of the aggregate designed treating capacities.

It was recited in the agreement that plaintiff "has disclosed to or for the Government information respecting", and that the defendant "requires a license from Petrolite for the use of" the Petreco processes of electrical dehydration and desalting of petroleum.

20. One of the recitals of this agreement provided as follows:

> "WHEREAS, the payments to be made by the GOVERNMENT as herein provided are not accepted or recognized by PETROLITE as full or adequate compensation, but are made and accepted without waiver or limitation of or prejudice to the rights of PETROLITE with respect to other and additional compensation, the matter of which is being left for future determination in accordance with the rights of PETROLITE at law or in equity and/or in accordance with applicable laws and provisions made thereunder, including without limitation, Section 7 of the Lend-Lease Act and Article IV of the Mutual Aid Agreement between the Governments of the United States and of the U. S. S. R., dated June 11, 1942, which provides that:
>
> "If, as a result of the transfer to the Government of the Union of Soviet Socialist Republics of any defense article or defense information, it becomes necessary for that Government to take any action or make any payment in order fully to protect any of the rights of a citizen of the United States of America who has patent rights in and to any such defense article or information, the Government of the Union of Soviet Socialist Republics will take such action or make such payment when requested to do so by the President of the United States of America."
>
> Provided however that nothing contained in this recital shall entitle PETROLITE to payments for the use of the processes or either of them in said units hereinabove mentioned, to the extent herein licensed, computed at a rate in excess of the rates used to compute the payments specifically provided for herein.

21. Other pertinent provisions of this agreement were as follows:

SECOND: As part payment and consideration for said eighteen (18) months license and for the information disclosed by PETROLITE the GOVERNMENT shall and hereby agrees to pay to PETROLITE the sum of Two Hundred Seventy-three Thousand Seven Hundred Fifty Dollars ($273,750.00), said sum being equivalent to one-half cent (½¢) per barrel of the aggregate designed electrical dehydration treating capacity and one-half cent (½¢) per barrel of the aggregate designed electrical desalting treating capacity of said units for a period of eighteen (18) months in the manner following:

(a) Ninety-one Thousand Two Hundred Fifty Dollars ($91,250.00) upon the execution and delivery of this Agreement;

(b) Ninety-one Thousand Two Hundred Fifty Dollars ($91,250.00) when operation involving the processes, or either of them, is begun; and

(c) Ninety-one Thousand Two Hundred Fifty Dollars ($91,250.00) six months after the date on which operation involving the processes, or either of them, was begun.

THIRD: PETROLITE hereby grants to the GOVERNMENT an option to continue operation beyond the aforementioned eighteen (18) months period, with or without notice to PETROLITE, for any extended period within the duration of the hostilities in which the United States is presently engaged and of Lend-Lease operations following the cessation of such hostilities. Operation subsequent to the expiration of the aforementioned eighteen (18) months period shall be deemed to be an exercise of the option. For such subsequent operation the GOVERNMENT shall and hereby agrees to pay to PETROLITE monthly for each month or part thereof the sum of Fifteen Thousand Two Hundred Eight and 33/100 Dollars ($15,208.33); provided, however, that when the total payments theretofore made hereunder shall aggregate five cents (5¢) per barrel of the aggregate designed annual electrical dehydration treating capacity and five cents (5¢) per barrel of the aggregate designed annual electrical desalting treating capacity of said units, the GOVERNMENT shall be deemed to have acquired a paid-up license with respect to said units and the use thereof in the U. S. S. R., as herein licensed, and no further payments shall become due with respect to the use in the U. S. S. R. as herein licensed, of the said units.

FOURTH: Subject to the provisions of Section FIFTH hereof and without relieving the GOVERNMENT from any obligation therein referred to, the GOVERNMENT shall be relieved from the obligation to make all payments specified in Sections SECOND and THIRD hereof except those then due, and the license granted herein shall be terminated if

(1) (a) The units covered by this Agreement have been destroyed; or

(b) The operation thereof under Lend-Lease has been terminated; and

(2) The GOVERNMENT shall so notify PETROLITE by delivery of a written notice by registered mail.

FIFTH: Nothing shall waive, limit or prejudice in any way the claims or rights which PETROLITE shall have for other and additional compensation with respect to or as a result of the delivery or other disposition by or for the GOVERNMENT of said equipment or units or the communication or other disposition by or for the GOVERNMENT of any information relating to the Petreco process of electrical dehydration or the Petreco process of electrical desalting, or to said equipment or units, or to the use or operation thereof, or with respect to or as a result of the use or operation after the termination of the license herein granted of said processes or either of them, or of any such information, or of any of said equipment or units, or with respect to or as a result of the use of said processes or either of them, or of any such information otherwise than in connection with the operation of said equipment and units, or with respect to or as a result of the use of said processes or of either of them or of any of such information, or the use or operation of any of said equipment or units otherwise than in accordance with the license herein granted, and PETROLITE reserves all rights it may now or hereafter have for such other and additional compensation at law or in equity and/or under Section 7 of the Lend-Lease Act and Article IV of the Mutual Aid Agreement between the Governments of the United States and of the U.S.S.R. dated June 11, 1942, and other terms and provisions of such Act and Agreement, and/or under any other law, act, agreement or treaty to which the GOVERNMENT is or may be subject or a party; provided, however, that nothing contained in this Section FIFTH shall entitle PETROLITE to payments for the use of the processes or either of them in said units hereinabove mentioned, to the extent herein licensed, computed at a rate in excess of the rates used to compute the payments specifically provided for herein.

22. This agreement was intended and understood by both the plaintiff and defendant to cover both the right to use the Petreco processes and the furnishing and use of the Petreco technical and process information.

The 18-month period provided in part Second of the agreement was based on the estimate of Treasury Procurement officers as to the remaining period of hostilities. Plaintiff and the Treasury Procurement officers well knew and understood that they could not predict whether the Second Protocol Petreco plants and equipment would be destroyed by enemy action, or what disposition might be made of them at the end of hostilities, whether in the way of continued operation in the U. S. S. R., transfer to some other foreign country, or return to the United States.

23. In July 1944, plaintiff was advised by the duly authorized officers and agents of Treasury Procurement that a Petreco dehydration plant and a Petreco desalting plant, having a designed electrical dehydration treating capacity of 20,000 barrels per day and a designed electrical desalting treating capacity of 20,000 barrels per day, were to be procured, constructed and operated under the authority of Requisition R-8888, issued by U. S. S. R. to defendant on March 14, 1944, in the furtherance of the part of the Russian lend-lease refinery program known as the Third Protocol. These Petreco dehydration and desalting plants were to be added to and were to become a part of a particular petroleum refinery, Refinery No. 4, Nebetdag crude, which refinery had theretofore been authorized under the Second Protocol program, and which refinery was being expanded under the Third Protocol by providing additional refining units and the Petreco plants.

24. In subsequent negotiations and conferences plaintiff was further advised by Treasury Procurement officers that Refinery No. 4 was to be erected and operated at Krasnavodsk in a desert area on the eastern shore of the Caspian Sea, where no fresh water was available for use in a desalting plant. The plan was to obtain fresh water by distillation of water from the Caspian Sea. In the interest of reducing high distillation costs, defendant requested plaintiff to provide an electrical desalting plant and process requiring substantially less than the volume of water normally employed

in electrical desalting. Prior to the Russian refinery program, plaintiff had conducted some research into the use of the same water more than once in the desalting of crude petroleum, but following the request from the defendant, conducted intensive research and built the first pilot plant ever to employ reuse of water in electrical desalting. The fundamental idea involved was to provide two steps or stages for the successive electrical reduction of the salt content of the crude petroleum. In the second stage, when the salt content of the crude had already been reduced by the first stage operation, fresh and unused water was mixed with the crude derived from the first stage operation, and the electrical process employed to complete the salt reduction process. The water effluent from this second stage was then reused in the first stage when it was mixed with crude petroleum not previously subjected to the electrical desalting process.

In the older and less efficient methods of desalting crude petroleum, either by use of chemicals to extract or water to wash out the salt, this concept of reuse or recycling of the chemicals or water had been employed for some years prior to the Russian refinery program, but never in any process of electrical desalting. The application of this idea of reuse of water in adaptation of the single-stage Petreco process of electrical desalting comprised substantial developments in the Petreco technical and process information, and plaintiff designed and proposed to defendant a new and unique Petreco process of electrical desalting, known as dual-stage counterflow electrical desalting, never used before in petroleum refining. This new plant and process required only one-third to one-fourth of the volume of water employed in the single stage process of electrical desalting, and is also more efficient in extracting salt and other impurities from crude petroleum.

25. By letter to plaintiff, dated July 8, 1944, the same Treasury Procurement officer who had executed the Second Protocol license agreement, set forth in findings 19 through 21, proposed an extension of the agreement, as follows:

> The said program has now been expanded so as to require, among other things, an additional Petreco Unit of a designed capacity of 20,000 barrels per day. The Government desires to arrange for an extension of the

aforementioned existing license agreement to cover the use of the said patented processes for such additional unit. It is assumed that your company will be agreeable to such an extension upon the same terms and conditions and upon the basis of the same rate of compensation or royalties as are provided in the existing agreement.

Please advise this office whether such a proposed extension agreement will meet with your approval whereupon the same will be prepared by this office and transmitted to your company for execution.

By letter dated July 12, 1944, plaintiff acknowledged receipt of this proposal, and advised that the matter would be considered by plaintiff's officers at the first opportunity.

26. In October 1944 a conference was held between plaintiff and Treasury Procurement officers and representatives, at which it was determined by defendant that plaintiff would furnish in connection with Refinery No. 4 the new Petreco process of dual-stage counterflow electrical desalting, and the specially designed Petreco dehydration and desalting plant, together with the specially developed Petreco technical and process information. It was understood that plaintiff would submit for processing a proposal concerning the furnishing of equipment, and that later an agreement would be reached concerning compensation for use of the processes and for the technical and process information.

In the discussion concerning the license agreement, plaintiff orally advised defendant that it objected to the fact that the equipment under the Second Protocol had been placed on shipboard in mid-1943 and that over a year later, plaintiff had not been advised that the plants were in operation, nor paid the second installment under the Second Protocol license agreement, and requested that provisions be included in the Third Protocol license to avoid the inequities resulting from such circumstances. Plaintiff likewise requested that a greater rate of compensation be provided as to the dual-stage counterflow process, measured by one cent per barrel per day on the daily rated capacity of the dual-stage desalting plant, with the rate on the dehydration process to remain at one-half cent per barrel per day as in the Second Protocol license agreement. The defendant advised that the Third Protocol program was also a war urgency project,

and that a directive required that the equipment be on shipboard by late summer or early fall of 1945. Plaintiff was orally assured that the license agreement would be satisfactorily negotiated.

No license agreement was ever executed between the parties concerning the Third Protocol project.

27. In reliance upon defendant's assurance with respect to reasonable compensation, and with the understanding that reasonable compensation would be paid to it by defendant, plaintiff consented that defendant could use the Petreco processes, including dual-stage counterflow electrical desalting, and furnished to defendant the Petreco technical and process information necessary for the use of the processes.

28. Plaintiff submitted under date of November 17, 1944, its proposal concerning the supply of Petreco dehydration and Petreco desalting equipment to Treasury Procurement, acting by and through its duly designated and appointed agent, E. B. Badger & Sons Company. This proposal related to the supply to defendant of the Petreco dehydration and Petreco desalting equipment necessary for employment of the Petreco processes, including the process of dual-stage counterflow electrical desalting, in the Third Protocol petroleum refinery. The proposal was accepted by Treasury Procurement on January 17, 1945 and incorporated in a Treasury Procurement Purchase Order designated as No. 4H482 dated November 29, 1944, as amended by Revision No. 1, dated January 17, 1945. This purchase order and first revision were accepted and executed concurrently by plaintiff on January 17, 1945. On July 5, 1945, defendant's Revisions Nos. 2, 3, 4 and 5, none of which are pertinent to the issues in these cases, were accepted by plaintiff. The proposal and the purchase order included 12 Petreco dehydration units and 16 Petreco desalting units, having a designed electrical dehydration treating capacity of 20,000 barrels per day and a designed dual-stage counterflow electrical desalting treating capacity of 20,000 barrels per day.

Article III of plaintiff's proposal, as accepted by defendant, provided as follows:

> This proposal does not include any rights to use the Petreco dehydrating and desalting processes, or any patent rights, licenses or inventions, patented or un-

patented, relating thereto or to the equipment herein described, nor does this proposal include any engineering or technical data, information, instructions, or advice relating thereto, it being understood that Procurement Division, Treasury Department will make arrangements and provide compensation satisfactory to Petrolite for for the use of such processes, etc. with the above described equipment in the U. S. S. R., the engineering to be provided by Petrolite under this proposal being limited to the design and supply of the equipment herein described.

By the proposal and purchase order, as amended and accepted by the parties, it was agreed that the purchase price of $200,121.12 included the furnishing of equipment and the necessary engineering, design, drawings and inspection of equipment, including the "Engineering for the design, specification and supply of the equipment" and the "Plans, flow sheets, erection drawings and foundation drawings of the equipment."

By Article IV (f) of the purchase order, as amended and accepted by the parties, it was agreed that plaintiff furnish to defendant in writing general operating instructions for the equipment, the cost of preparing, furnishing and delivering of the instructions to be deemed a part of the purchase price for equipment and services. It was further provided in connection with this article as follows:

> Providing, however, anything herein to the contrary notwithstanding, the provisions of this subdivision (f) OPERATING INSTRUCTIONS, shall not be effective or operative for any purpose whatsoever unless Treasury Department, Procurement Division, shall make arrangements and provide compensation satisfactory to Petrolite Corporation, Ltd. for the use of the processes, etc. with the above described equipment in the U. S. S. R. as provided in ARTICLE III of the Proposal and no reduction of or deduction from the aforesaid lump sum price for equipment and services shall be made because such operating instructions are not delivered in the event above referred to agreement is not made.

No compensation has ever been paid to plaintiff by defendant for use of processes or process information in connection with the Third Protocol program, and no arrangements or agreements have been consummated to provide such compensation, and plaintiff has never delivered in writing any set

of general operating instructions on the Third Protocol equipment.

29. Plaintiff furnished and delivered to defendant all of the equipment, material and supplies specified in both the Second and Third Protocol proposals and purchase orders and performed all obligations and fulfilled all agreements on its part to be performed and fulfilled thereunder. The equipment as designed and furnished by plaintiff was capable of processing crude petroleum under normal operating conditions at a rate 25 percent in excess of the specified capacities. Plaintiff also made a full and complete disclosure of all Petreco technical and process information necessary for the design, construction, installation and operation of both the Second and Third Protocol Petreco plants and for the use of the Petreco processes, including the new process of dual-stage counterflow electrical desalting, furnishing to defendant pilot plant evaluations, analyses of crude stocks, detailed blueprints and design data, specifications, drawings, plans, flow sheets, erection and foundation drawings and instructions, information and advice respecting operating methods, techniques and controls.

Each of the plaintiff's proposals in both the Second and Third Protocol programs, as accepted by defendant, contained in paragraph F of Article VI the following provision:

> It is understood that the specifications, engineering and design data and information, drawings, plans, flow sheets, erection drawings and foundation drawings of the equipment are of an exclusive or confidential nature, or contain data or information of an exclusive or confidential nature, and shall remain the property of Petrolite, and any information derived therefrom or otherwise communicated to the Purchaser or to others in connection with this proposal, or any order resulting therefrom, shall be regarded by the Purchaser and by others as strictly confidential, and shall not, without the consent in writing of Petrolite, be disclosed to any third party or made use of by the Purchaser or by others, except in connection with the performance of this proposal or any order resulting from this proposal, and only in connection with the equipment described herein.

30. With respect to the Second Protocol proposals and purchase orders, defendant furnished all of the Petreco equipment specified therein to the U. S. S. R.

With respect to the Third Protocol proposal and purchase order, the evidence does not establish that the defendant ever furnished the Petreco equipment to the U. S. S. R.

With respect to the Second Protocol program, defendant furnished the Petreco technical and process information, including the drawings, blueprints, flow sheets and other data and information furnished by plaintiff, to the U. S. S. R. At the request of defendant, plaintiff provided various Russian engineers and technicians with complete and detailed instruction and training in the operation of Petreco equipment and use of Petreco processes, conducting a training and instruction program at refineries where Petreco dehydration and desalting equipment was in operation, and also in the defendant's offices in New York City. The Russians evidenced great zeal in acquiring complete explanations and full information concerning the Petreco equipment, the Petreco processes, and the drawings, blueprints and flow sheets, and plaintiff provided them completely and in detail with all of the Petreco technical and process information. During this program, the Russian engineers and technicians made detailed written notes and memoranda. The information, drawings, and other data so furnished to the Russians were sufficient to enable the U. S. S. R. to construct, duplicate, install and operate Petreco plants, both the dehydration and the single-stage or dual-stage desalting equipment, without further aid or supervision. The same type of training program was also conducted by defendant with respect to all other phases of the refineries furnished under the Russian lend-lease program.

In the conferences and training program, defendant participated by and through engineer-employees of its appointed agent, E. B. Badger & Sons Company, and thereafter some of these Badger engineers were sent by the defendant to U. S. S. R. where they remained from October 12, 1943, until their departure on December 19, 1946. They counseled with Russian engineers engaged in the erection, installation and commencement of operations on the lend-lease refineries, including the Petreco plants.

31. Refinery No. 4, as furnished by defendant to the U. S. S. R. under the Second Protocol program, was equipped with a thermal cracking unit or units, and was constructed

and placed in operation at Krasnavodsk in the U. S. S. R. In the design and erection of Refinery No. 4, appropriate space was left for installation and operation of the Petreco electrical dehydration plant and Petreco electrical desalting plant, which plants, together with Houdry catalytic cracking and treating equipment, were to be additions to this refinery under the Third Protocol program. About 25 percent in volume of Third Protocol equipment was delivered by defendant to the U. S. S. R., and was seen in storage at Refinery No. 4 by Badger engineers who were witnesses in the trial of these cases. The evidence does not establish that any Petreco equipment was included in this stored equipment. No erection, installation or construction of the additions to Refinery No. 4, as contemplated under the Third Protocol program, had commenced by the time of the departure of the Badger engineers from Russia.

32. Under the Russian lend-lease refinery program, defendant never undertook to furnish refinery units at Refinery No. 5 or Refinery No. 6, as those refineries were pre-existing operations, but did furnish Petreco dehydration and desalting plants and equipment under the Second Protocol, as described in the pertinent purchase orders in finding 17. Badger engineers were never permitted to visit these refineries. They offered to aid in erection of Petreco plants there, but were told by the Russians that erection and installation were proceeding satisfactorily, and no aid would be requested unless necessary. The Badger engineers were also informed by the Russian officials that the U. S. S. R. had decided to divide and redesign each of the Refinery No. 5 and Refinery No. 6 Petreco plants, each of which had 12 units of dehydration equipment and 12 units of desalting equipment, each having a 20,000 barrel per day capacity. They advised that they would transfer and install half of the Petreco plant for Refinery No. 5 and half of the Petreco plant for Refinery No. 6 at Refinery No. 1 and Refinery No. 2 respectively, each half to have a capacity of 10,000 barrels per day.

Defendant had furnished Houdry catalytic cracking and treating units for both of the latter refineries under the Russian lend-lease program, but not Petreco dehydration or desalting equipment, the plan having been to use thermal or chemical methods of dehydration and desalting in connection

with those refineries. The Badger engineers counseled with the Russian engineers concerning erection and installation of Petreco plants at Refinery No. 1 and Refinery No. 2.

Refinery No. 1, including the Petreco plant, was completed and placed in operation before the departure of the Badger engineers. Construction of Refinery No. 2 was in process but had been delayed because of a mistake in design due to misinformation originally furnished by the Russians as to water supply, and because of emphasis being placed on completion of other refineries. The Badger engineers were uncertain about having seen any Petreco plant or equipment at Refinery No. 2.

33. Refinery No. 3, as furnished by the defendant to the U. S. S. R. under the Second Protocol program, was equipped with a thermal cracking unit or units, and the Petreco desalting and dehydrating plant described in the pertinent purchase order in finding 17. This refinery was the first to be completed and placed in operation, with the commissioning ceremonies having taken place on August 10, 1945.

34. The refineries at which the Second Protocol Petreco equipment was installed, or proposed to be installed, are located in the Second Baku and Emba regions of the U. S. S. R. From facts and circumstances known during and prior to World War II, it is reasonable to conclude that these regions have developed into the most important oil producing districts of the Soviet Union. The crude petroleum produced in these districts required dehydration and desalting for its efficient refining and use.

Very difficult natural conditions, including lack of a supply of fresh water, existed in the desert areas where Refinery No. 4 and the Nebetdag oil fields were located east of the Caspian Sea. The only witness who testified concerning the natural conditions and potential of the Nebetdag oil fields was a prominent Russian geologist who had been employed by the U. S. S. R. in Russian and Siberian oil fields for a number of years prior to his capture by the German forces in 1942. He stated that he was sure that the Russians "cannot develop on the Nebetdag oil field refinery." The refinery to which he made reference was a small refinery of a very old type, refining small amounts of petroleum, which had existed for some years prior to World War II some dis-

tance east of and inland from Refinery No. 4, which was located on the shores of the Caspian Sea.

With respect to the new Second Protocol refinery, Refinery No. 4, this witness stated that it was possible to develop that refinery, but that it was "not easy" because the lack of fresh water constituted a very difficult problem. He further stated that the Nebetdag oil fields were very important to the U. S. S. R. from the standpoint of production of crude petroleum, that production of the Nebetdag crude petroleum had been increasing both prior to and during World War II, and that it would increase even more thereafter.

In a conference held between plaintiff and defendant on October 23, 1944, concerning the question as to whether or not Petreco single-stage or dual-stage desalting equipment and processes should be supplied by defendant to the U. S. S. R. for use at Refinery No. 4 as part of the Third Protocol additions thereto, plaintiff stated that the dual-stage plant would cost about $100,000 more than the single-stage, but would be substantially more efficient in removal of salt. Thereupon a member of the Soviet Purchasing Commission stated that the difference was too small to permit him to agree to accept the single-stage system for the reason that Refinery No. 4 had a future of great scope, that new fields nearby would be developed in the course of the next 10 to 15 years, that there was a strong probability that various crudes other than Nebetdag would be desalted at Refinery No. 4, and that the most efficient desalting system was needed, especially because catalytic cracking was to be used and the presence of salt would seriously shorten the life of the catalyst.

Like the crude petroleum produced in the Second Baku and Emba regions, where production potential was high and natural conditions were good, the crude petroleum from the Nebetdag oil fields required dehydration and desalting.

35. It is the general experience, reasonably to be expected, and probably the case in the Russian oil fields, that as the period of production from an oil field lengthens its producing formations meet with the intrusion of increasing amounts of salt water which create progressively greater need for dehydration and desalting of the crude petroleum produced from such field.

36. The refineries and processes supplied by defendant to the U. S. S. R. under the Russian lend-lease refinery program were modern in all respects and included the most recent developments of the American petroleum industry, including the Houdry catalytic and cracking plant and process. Maximum reduction of water, salt, and other impurities in the crude petroleum is essential to the efficient and successful operation of modern refineries and processes, and especially the Houdry plant and process. Salt and other impurities cause corrosion of piping, tanks, and other equipment and poison or seriously damage the catalyst, requiring complete shut-down of the refinery for major and extensive repairs and replacements, and resulting in substantial costs and also losses from interrupted operations.

While there were other means of dehydration and desalting of crude petroleum, such as use of chemicals, settling tanks or thermal treatment, the Petreco plants and electrical processes were the best means known, and from a practical standpoint, constituted the only reasonable method available for use in dehydration and desalting operations in connection with the refineries furnished by defendant to the U. S. S. R.

37. In connection with the Second Protocol program, defendant furnished to the U. S. S. R. complete plans, specifications, drawings, flow sheets, technical data, know-how, and production technique with respect to the Houdry catalytic cracking and treating plant and process, as well as the Petreco electrical dehydration and electrical single-stage and dual-stage desalting plants and processes. The Russian engineers and technicians with this information in hand were capable of completing and placing in operation those refineries and Petreco plants remaining to be installed or completed at the time of the departure of the Badger engineers, and were capable of constructing and placing in operation the proposed additions to Refinery No. 4 involving the Houdry catalytic cracking and treating plant, and the Petreco dehydration and dual-stage counterflow desalting plant.

38. The design of the Petreco plants under both the Second and Third Protocol programs afforded means of dehydration and desalting of a variety of crude oils with differing characteristics, and the U. S. S. R. was provided by the defendant

through the plaintiff with complete information respecting the use and adaptation of the Petreco equipment and processes in the treatment of different types of crude oils under changed operating conditions.

39. The Petreco dehydration and the Petreco desalting equipment procured by defendant and delivered by it to the U. S. S. R. had a useful life of about 15 years, and the defendant furnished to the U. S. S. R. a generous complement of spare parts for all units of the equipment. Russian oil refineries are equipped with foundry and machine shop facilities for the fabrication and replacement of parts and pieces of plant and equipment as may be necessary for continuing refinery operation and maintenance.

40. The requirements of the U. S. S. R. for petroleum refineries and dehydration and desalting plants were greatly in excess of the plant and equipment furnished or proposed to be furnished to the U. S. S. R. by the defendant under the Second and Third Protocol programs.

41. Plaintiff has performed all obligations and fulfilled all agreements on its part to be performed and fulfilled under the Second Protocol license agreement, dated May 28, 1943, set forth in findings 19 through 21.

The initial payment as provided in article Second of this agreement in the sum of $91,250 was made by the defendant to the plaintiff on or about July 14, 1943. Operation of the Petreco processes having commenced in Russia on or about August 10, 1945, payment by the defendant of the sum of $182,500, the balance due under the remaining two installments, provided in article Second, was made to plaintiff on or about July 13, 1946. These payments were applicable to operations for the period from August 10, 1945, to February 10, 1947.

No other payments have been made by defendant to plaintiff under this Second Protocol license agreement.

42. By telegram transmitted February 10, 1947, the Bureau of Federal Supply, as successor agency of Treasury Procurement, advised plaintiff with respect to the Second Protocol license agreement, as follows:

> State Department has requested this office to inform you that the United States will not exercise the option in

contract DA-TPS-35692 beyond February 10, 1947. Russian Government being advised by State Department that use of process after February 10, 1947 will make Russians liable for payment of royalties to your corporation and have requested Russians to make payment to your corporation of such royalties as may become due by reason of continued use of equipment. Letter follows.

By letter dated March 3, 1947, the defendant's Lend-Lease Administrator advised plaintiff as follows:

> This is to supplement the telegram dated February 10, 1947, addressed to you by the Bureau of Federal Supply, and signed by Mr. J. D. Tompkins. On February 10, 1947, the Department of State, Office of Foreign Liquidation Commissioner, over the signature of Mr. William C. Moore, Acting Director, USSR Division, wrote to Mr. I. A. Eremin, Acting Chairman of the Soviet Government Purchasing Commission, with reference to certain license agreements entered into in connection with the Russian lend-lease oil refineries. On February 13, 1947, I wrote a letter to I. A. Eremin indicating that the letter of February 10 was signed by Mr. Moore in my absence, but with my approval, and confirming that the letter signed by Mr. Moore represented my position on the matter.
>
> Specific reference to your contract is made in Mr. Moore's letter. It states that, in the case of Contract DA-TPS-35692 between the United States Government and Petrolite, the 18 months period of use of the processes for which the United States Government contracted expires on February 10, 1947, and that the United States Government elects not to avail itself of the option to continue use of the processes thereafter. The letter goes on to say that, if the Soviet Government makes further use of the processes involved, it will thereby become liable to pay directly to your corporation whatever royalties may become due by reason of such use. It then presents a formal request to the Soviet Government to make directly to you such payments as it may become liable to make under the circumstances outlined above.
>
> We were advised some time ago by the Soviet Government that an oil mission would shortly visit the United States to make License agreements for oil refining processes on behalf of the Soviet Government. The Department of State will be glad to assist you in every way possible in contacting the Soviet oil mission when they arrive and in negotiating satisfactory arrangements to protect your interest in this matter.

By letter dated March 6, 1947, plaintiff replied to defendant's Lend-Lease Administrator, and stated that it had not been able to reconcile defendant's position stated in the foregoing telegram and letter with the provisions of the Second Protocol license agreement.

43. The defendant and the U. S. S. R. have never reached a lend-lease settlement agreement. Under Article V of the Mutual Aid Agreement of June 11, 1942, the defendant retains a lend-lease title, that is, the right to require the U. S. S. R. to return the Petreco plants and equipment and no transfer of title has ever been made to the U. S. S. R.

The defendant has repeatedly requested the U. S. S. R. to provide compensation to the plaintiff for use of the Petreco plants and processes, and secured commitments from the U. S. S. R. to negotiate with plaintiff and other process owners. Expressly reserving its position that the defendant was obligated to pay full compensation for the continued use in the U. S. S. R. of the Petreco plants and processes, plaintiff at the request of defendant has unsuccessfully negotiated with representatives of the U. S. S. R. for payment of such compensation.

44. Although there was no provision in the pertinent proposal and purchase order prohibiting shipment until a license agreement had been reached, plaintiff repeatedly requested that until the defendant had provided compensation for use of plant and process, the defendant not make delivery to the U. S. S. R. of the Third Protocol plant and equipment. Acknowledging that a very minor part had already been delivered, defendant advised both plaintiff and the U. S. S. R. that this Petreco plant and equipment would not be delivered until the U. S. S. R. had made satisfactory arrangements to pay plaintiff such compensation.

CONCLUSION OF LAW

Upon the foregoing findings of fact, which are made a part of the judgment herein, the court concludes as a matter of law that plaintiff is not entitled to recover, and its petitions are dismissed.

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JAMES R. BROWNING, Clerk

No. 444

In the Supreme Court of the United States

OCTOBER TERM, 1958

PETROLITE CORPORATION, LTD., PETITIONER

v.

UNITED STATES OF AMERICA

On Petition for a Writ of Certiorari to the United States Court of Claims

---

BRIEF FOR THE UNITED STATES IN OPPOSITION

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OPINION BELOW

The opinion of the Court of Claims (Pet. App. 1-10) is reported at 161 F. Supp. 618.

JURISDICTION

The judgment of the Court of Claims was entered on May 7, 1958. Motions for rehearing, timely filed, were denied on July 16, 1958. The petition for a writ of certiorari was filed on October 13, 1958. The jurisdiction of this Court is invoked under 28 U.S.C. 1255(1).

QUESTION PRESENTED

Whether the Court of Claims correctly determined that, in the circumstances of this case, the United States had fully discharged its obligation to compensate petitioner for the Lend-Lease use by Russia of petitioner's equipment and processes.

STATEMENT

As a part of the World War II Lend-Lease program, the United States undertook to furnish the Soviet Union with American equipment, processes, and technical data essential to the refining of crude oil and to the production of crude oil products in the Soviet Union (Pet. App. 12-13). The present litigation is an outgrowth of this undertaking. The facts, in summary form, may be stated as follows:

1. In October, 1942, the United States advised petitioner, the Petrolite Corporation, Ltd., that the United States desired to procure for use in the Soviet Union, (a) the so-called Petreco dehydration and desalting equipment necessary for the employment of the Petreco process of electrical dehydration and the Petreco process of electrical desalting of crude oil; (b) the right to use these processes; and (c) the technical and process information necessary for the design, construction, installation, use, and operation of Petreco equipment and Petreco processes (Pet. App. 12, 13). Extended negotiations between Government procurement agents and Petrolite (Pet. App. 14-16) culminated in the submission by Petrolite, in January, 1943, of three proposals for supplying Petreco equipment. These proposals were accepted

by the United States and the three contracts were designated as Purchase Orders Nos. E 4025, E 8003, and E 10003 (Pet. App. 16) and purchase orders bearing these numbers were issued under date of June 24, 1943 (Pet. App. 16).

The three contracts covered the purchase of Petreco equipment with an aggregate purchase price value of $424,358 (Pet. App. 16). Each of the three purchase orders stated in effect that the purchase price included, in addition to the equipment, "the necessary engineering, design, drawings, and inspection of such equipment as herein provided", and Article II (B) provided for "Engineering for the design, specification and supply of the equipment" and "Plans, flow sheets, erection drawings and foundation drawings of the aforesaid equipment" (Pet. App. 17). Under Article IV (O) of each purchase order, Petrolite was required to furnish in writing "general operating instructions for the equipment" and it was provided that the cost of preparing, furnishing and delivering the instructions would be a part of the purchase price of the equipment and services (Pet. App. 17).

Each of the three proposals submitted by Petrolite on January 5, 1943, provided, in effect, that the proposal did not include the rights to use the Petreco processes nor any engineering or technical data, information, instructions or advice relating thereto "it being understood that Procurement Division, Treasury Department will make arrangements and provide compensation * * * for the use of such processes, etc. with the above described equipment in the U.S.S.R. * * *" (Pet. App. 17). By subsequent agreement

between Petrolite and the United States, entered into in July 1943 and antedated to May 28, 1943. Petrolite granted the United States a "nonexclusive indivisible license for use in the U.S.S.R. of the Petreco process of electrical dehydration and the Petreco process of electrical desalting in the units of equipment" described in the three purchase orders (Pet. App. 17-18). It was further agreed that payments to Petrolite were to be computed at the rate of one-half cent per barrel per day on the aggregate designed treating capacity (100,000 barrels per day) of the equipment (Pet. App. 18). The license agreement, which was to cover a period of eighteen months, provided (Pet. App. 19) that compensation, totalling $273,750 for the eighteen-month periods was to be paid in three installments, $91,250 upon execution and delivery of the agreement, $91,250 when operation involving the processes was begun, and $91,250 six months after operation was begun (Pet. App. 19). The agreement gave the Government the option, at a fixed rate of compensation, to extend the license beyond the eighteen-month period.

Operation of the Petreco processes commenced in Russia on or about August 10, 1945 (Pet. App. 32). In accordance with the license agreement, the United States paid Petrolite the sum of $273,750 covering operations for the eighteen-month period, August 10, 1945, to February 10, 1947 (Pet. App. 32).

By telegram of February 10, 1947, confirmed by letter of March 3, 1947, the United States notified Petrolite that it would not exercise its option to use Petrolite's processes beyond the eighteen-month period

covered by the license agreement and that for use of the processes beyond February 10, 1947, the Soviet government "will * * * become liable to pay directly to your corporation whatever royalties may become due by reason of such use * * *" (Pet. App. 32-33).

2. In July, 1944, Petrolite was advised by agents of the United States that additional Petreco equipment was to be procured for use in the Soviet Union (Pet. App. 21) and the United States proposed that the license agreement be extended to cover the use of Petreco processes for the additional equipment to be procured (Pet. App. 22-23). Petrolite was requested to advise whether the proposed extension "will meet with your approval" (Pet. App. 23). By letter of July 12, 1944, Petrolite acknowledged receipt of the proposal and advised that the proposal would be considered by Petrolite officers at the first opportunity (Pet. App. 23).

In October, 1944, a conference was held between Petrolite and agents of the United States at which it was determined that Petrolite would furnish a specially designed Petreco dual-stage counterflow electrical desalting plant together with the specially developed Petreco technical and process information. It was understood that Petrolite would submit for processing a proposal concerning the equipment and that later an agreement would be reached concerning compensation for use of the processes and for the technical and process information (Pet. App. 23). With respect to such compensation, Petrolite at the conference requested a greater rate of compensation than that provided in the existing license agreement

(Pet. App. 23). In reliance on assurances with respect to reasonable compensation and on the understanding that reasonable compensation would be paid, Petrolite consented that the United States could use Petreco processes and furnished Petreco technical and process information necessary for the use of the processes (Pet. App. 24).

Under date of November 17, 1944, Petrolite submitted a proposal to furnish Petreco equipment. This proposal was accepted by the United States and incorporated in a Treasury Procurement purchase order designated as 4 H 482, dated November 29, 1944 (Pet. App. 24). Petrolite's proposal included reservations with respect to the right to use Petreco processes, etc., identical to the reservations included in prior proposals (Pet. App. 17, 24-25).

The proposal and purchase order, as amended and accepted by the parties, fixed the purchase price of Petreco equipment at $200,121.12, which included the necessary engineering, design, drawings, and inspection of equipment, including the "Engineering for the design, specification and supply of the equipment" and the "Plans, flow sheets, erection drawings and foundation drawings of the equipment" (Pet. App. 25). By Article IV(f) of the purchase order, it was agreed that Petrolite, as part of the purchase price, would furnish operating instructions for the equipment, subject to the following proviso (Pet. App. 25):

> Providing, however, anything herein to the contrary notwithstanding, the provisions of this subdivision (f) OPERATING INSTRUCTIONS, shall not be effective or operative for any purpose

whatsoever unless Treasury Department, Procurement Division, shall make arrangements and provide compensation satisfactory to Petrolite Corporation, Ltd. for the use of the processes, etc. with the above described equipment in the U.S.S.R. as provided in ARTICLE III of the Proposal and no reduction or deduction from the aforesaid lump sum price for equipment and services shall be made because such operating instructions are not delivered in the event above referred to agreement is not made.

3. (a) The purchase price of the equipment, $424,358, covered by Purchase Orders E 4025, E 8003, and E 10,003, was fully paid by the United States (Pet. App. 2). This equipment was furnished by the United States to the Soviet Union (Pet. App. 26). Payments totalling $273,750, as provided in the eighteen-month agreement (Pet. App. 18-19), were also paid to Petrolite by the United States (Pet. App. 3). The United States has repeatedly requested the Soviet Union to provide compensation to Petrolite for the use, beyond February 10, 1947, of the Petrolite equipment and processes. While reserving its right against the United States, Petrolite has unsuccessfully negotiated with representatives of the Soviet Union for payment of compensation (Pet. App. 34).[1]

The equipment specified in Purchase Order 4 H 482 was delivered to the United States and the purchase price $200,121.12, has been paid (Pet. App. 10). Petrolite repeatedly requested that, until an agreement providing for compensation for the use of the

[1] See, however, *infra*, p. 12.

plant and process was reached, the United States not make delivery of the plant and equipment. While acknowledging that a very minor part had already been delivered, the United States advised both Petrolite and the Soviet Union that the Petreco plant and equipment would not be delivered until the Soviet government had made satisfactory arrangements to pay Petrolite compensation. The evidence does not establish that the United States ever furnished this equipment to the Soviet Union (Pet. App. 27).

(b) By two petitions filed in the Court of Claims, Petrolite sought to require the United States to pay additional compensation for the continuing use by the Soviet Union of Petreco processes. The Court of Claims dismissed the petitions, holding (Pet. App. 1-10) (1) that upon expiration of the eighteen-month license agreement, without the United States exercising its option to extend the license, the United States was exonerated from additional liability; (2) that the United States was not obligated to pay for the use of Petreco processes in connection with equipment furnished under Purchase Order 4 H 482, because no agreement was entered into between Petrolite and the United States for compensation for the use of Petreco processes; and because the evidence does not show that this equipment was furnished the Soviet Union or that it was ever used by anyone (Pet. App. 9-10).

ARGUMENT

1(a). The Court of Claims held that, upon termination of the license agreement between petitioner and the United States, on February 10, 1947, the

Government was relieved of further liability for the use by Russia of Petrolite equipment and processes, and, for additional compensation, petitioner must look to the Russian government.

This holding necessarily follows from the terms of the license agreement itself. By Section First of the agreement, petitioner granted the United States a nonexclusive license for the use in the Soviet Union of Petreco processes. This license was to extend for a period of eighteen months from and after the commencement of operation of Petrolite equipment and processes in the Soviet Union. Section Second of the agreement fixed the consideration for the eighteen-month license at $273,750 to be paid in three installments of $91,250. The consideration fixed by Section Second has been paid by the United States in full.

Section Third of the agreement (Pet. App. 19) granted to the United States an option to continue operation, at an agreed rate of compensation, beyond the eighteen-month period, for which the license was granted. The United States, however, by timely notice to petitioner, expressly declined to avail itself of the option, and advised petitioner that the Russian government was being advised by the State Department that use of the processes after February 10, 1947, "will make the Russians liable for payment of royalties to your corporation" (Pet. App. 32-33).

By declining to exercise the option to extend the license beyond the eighteen-month period, and by terminating operations under the Lend-Lease program, Section Fourth of the license agreement became oper-

ative. In pertinent part, Section Fourth provided (Pet. App. 20):

> Subject to the provisions of Section FIFTH hereof and without relieving the GOVERNMENT from any obligation therein referred to, the GOVERNMENT shall be relieved from the obligation to make all payments specified in Sections SECOND and THIRD hereof except those then due, and the license granted herein shall be terminated, if
>
> (1) * * *
>
> (b) The operation thereof under Lend-Lease has been terminated; * * *

Thus, by the express terms of the license agreement, upon termination of the operations under the Lend-Lease program, the United States was "relieved from the obligation to make all payments specified in Sections Second and Third except those then due * * *." In these circumstances, there can be no serious question that the license agreement was intended as a complete expression of the extent of the Government's obligation to compensate petitioner for the use of Petrolite processes by the Soviet Union. Since the obligation as specified in Section Second has been fully discharged and since Section Third never became operative, the petitioner is entitled to nothing by way of further compensation from the United States.

The force of the Section Fourth provision, exonerating the United States from further obligation upon termination of the Lend-Lease operation of Petreco equipment, cannot be avoided by the presence of the

expression "as part payment" in Section Second (Pet. App. 19) and related language in the "whereas" clause of the license agreement (Pet. App. 18). While, as noted by the Court of Claims, this language "somewhat confuses the matter," it is readily explained.

Upon expiration of operations of Petrolite processes under Lend-Lease, the obligation further to compensate Petrolite for continuing use of the processes by Russia became that of the Russian government. By Article IV of the Mutual Aid Agreement of June 11, 1942, between Russia and the United States, incorporated in the license agreement (Pet. App. 18), Russia agreed to take any action or make any payment necessary to protect the rights of a citizen of the United States who had patent rights to any defense article or information supplied under the Lend-Lease program (Pet. App. 18). Thus, payments specified in the license agreement were partial in the sense that upon termination of the license agreement Petrolite reserved, in Section Fifth of the agreement (Pet. App. 20), its right, whether under the Lend-Lease Act[2] or the Mutual Aid Agreement, to further compensation from the Soviet Union for the use of Petrolite processes beyond the period covered by the license. To the end that adequate compensation would be paid, the United States has used its offices to require Russia to live up to its commitments by repeatedly requesting the Russian government to provide compensation to Petrolite for the continued use of its processes (Pet. App. 34), and by securing

[2] 55 Stat. 31, as amended, 22 U.S.C. 411, *et seq.*

commitments from Russia to negotiate with Petrolite and others similarly situated (Pet. App. 34).

Negotiations between Russia and private concerns have now, apparently, come to fruition, since Russia has agreed to pay five companies, including petitioner, a total of $2,937,598.01 as compensation for the continued use of refinery equipment and processes acquired by Russia under the Lend-Lease program.[3] This factor, compensation by Russia, adds force to the interpretation given the license agreement by the Court of Claims.

(b) The Court of Claims was also correct in its disposition of petitioner's claim (Pet. App. 9-10) based upon Petrolite equipment purchased by the United States under Purchase Order No. 4 H 482 (Pet. App. 24). While petitioner has been fully paid for the equipment, it has received no compensation for the use of its processes in connection with this equipment, for the very good reasons that (1) no arrangements or agreements were made to provide

[3] *Exchange of Patent Rights and Technical Information Under Mutual Aid Programs*, Study of the Subcommittee on Patents, Trademarks, and Copyrights, of the Committee on the Judiciary, United States Senate, 85th Cong., 2d Sess., Study No. 10, pp. 16-21. By letter of May 19, 1953, petitioner advised the Department of State that it had, on October 1, 1952, concluded an agreement with Russia by which the latter agreed to pay petitioner $652,057.45 in consideration for a continuing license to use Petreco processes covered by the license agreement of May 23, 1942, between petitioner and the United States. The agreement of October 1, 1952, specified that Petrolite "does not waive, limit or prejudice in any way any claims, rights, suits or causes of action which it may have against the United States."

compensation (Pet. App. 25), (2) at petitioner's request the United States withheld shipment of the equipment to Russia (Pet. App. 34) and the evidence does not establish that the equipment or processes were ever furnished Russia (Pet. App. 27), (3) petitioner never delivered in writing any set of general operating instructions on the equipment (Pet. App. 25-26), and (4) no use of the equipment by anyone has been shown (Pet. App. 9-10). In the light of these circumstances, petitioner's asserted right to compensation for its processes is clearly without foundation.

2. From what has been said, *supra* pp. 8-13, it is apparent that the decision in this case turns upon contracts, facts, and circumstances peculiar to this case. There is no conflict of decisions and review of the decision will not serve to resolve any pending or anticipated future controversy or illuminate the general field of Government contract law.

Because of the express contractual arrangements between petitioner and the United States and the otherwise distinguishing factual circumstances present in this case, the decisions of this Court, relied upon by petitioner as establishing a conflict (Pet. 7-9), are inapposite.

CONCLUSION

For the foregoing reasons, it is respectfully submitted that the petition for a writ of certiorari should be denied.

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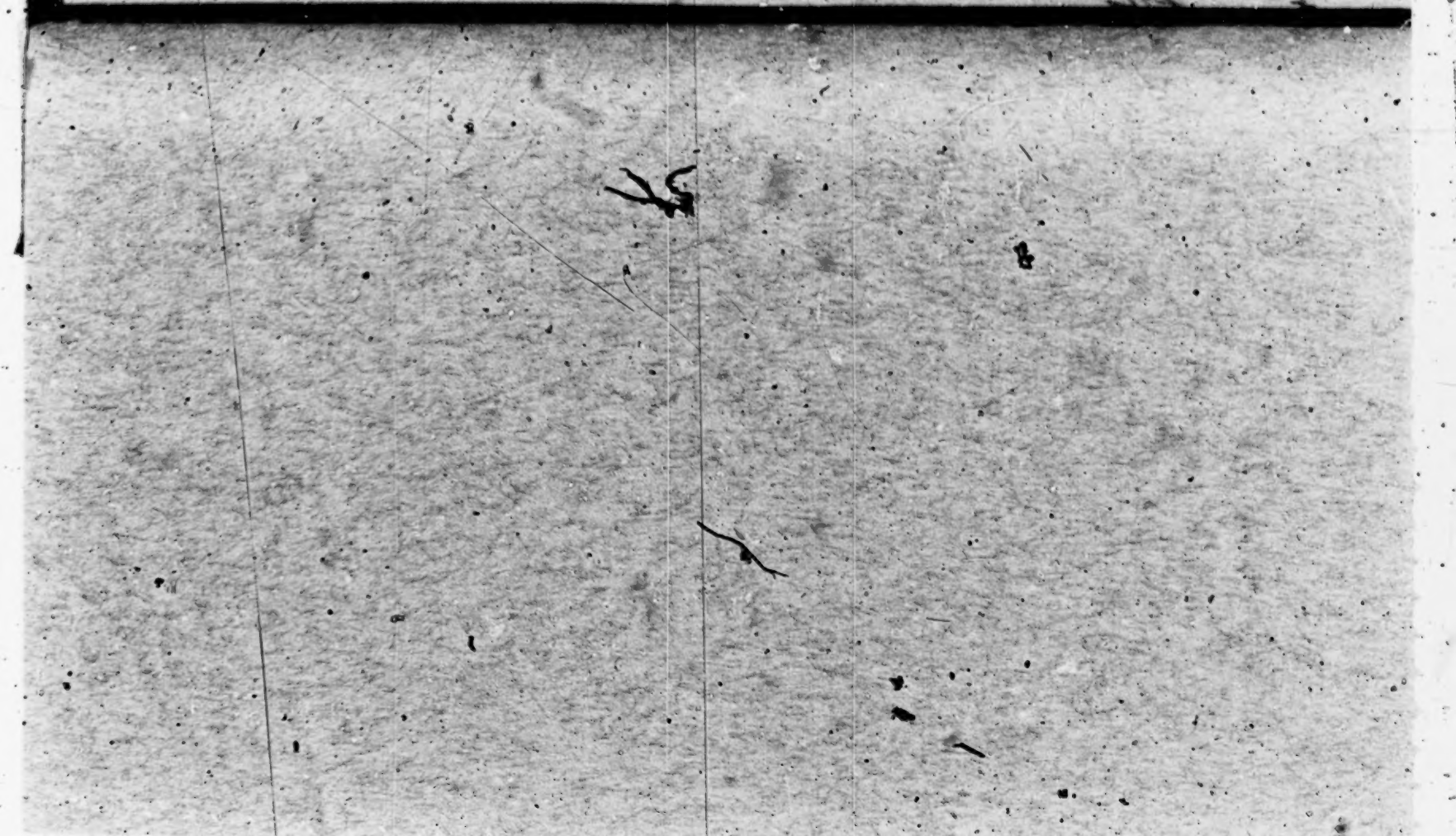
November, 1958

☆ U. S. GOVERNMENT PRINTING OFFICE: 1959 667455



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Office-Supreme Court, U.S.
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JAMES R. BROWNING, Clerk

IN THE

Supreme Court of the United States

OCTOBER TERM, 1958

No. 444

PETROLITE CORPORATION, LTD.,

Petitioner,

vs.

THE UNITED STATES,

Respondent.

REPLY TO RESPONDENT'S BRIEF IN OPPOSITION

to Petition for a Writ of Certiorari to the United States Court of Claims

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In its effort to support the opinion and decision of the Court below, respondent completely evades the gist of the two actions, emphasizing the unimportant and ignoring the essential.

The gist of both actions is respondent's requests for petitioner's processes and for its secret technical information and know-how, its assurance that it would pay reasonable compensation therefor, and petitioner's furnishing of such processes and disclosure of such information and know-how to respondent in reliance upon such assurance. Respondent consistently disregards these facts.

Third Protocol Case

Respondent briefly observes that there is "no conflict" with the Supreme Court decisions which are described as inapposite because of "express contractual

arrangements . . . and otherwise distinguishing factual circumstances . . ." (Resp. Br. 13). But respondent fails to sustain any of these asserted distinctions:

1. The Third Protocol contractual arrangements were identical in all respects with those of the contrary Supreme Court cases.

The only "existing contractual arrangements" in respect of the Third Protocol transaction were those which place the case squarely within the compass of the Supreme Court decisions (Pet. 8-9) which reached an opposite result, to-wit:

(a) Request by respondent for new dual-stage desalting process and accompanying dehydration process (Pet. App. 21-22, 23).

(b) Agreement by respondent that reasonable compensation would be paid for said processes and the necessary process information (App. 23-24).

(c) Furnishing of said processes and information *in reliance* upon said assurance and with the understanding that *respondent* (not the U.S.S.R.) would pay said reasonable compensation therefor (App. 13).

There was no written contract at all relating to the Third Protocol processes and information[1] and the case is factually identical with the contrary Supreme Court decisions discussed in the Petition (pp. 8-9).

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[1]Accenting the immaterial, respondent dwells at length upon petitioner's written proposal and upon respondent's purchase order No. 4H482, both of which related exclusively to Third Protocol *equipment* and to equipment design, drawings, etc. (Resp. Br. 5-7); as respondent admits (Resp. Br. 5-6), these documents *expressly did not* pertain to compensation for the processes, information and know-how which is the sole subject to the action (Pet. 10).

2. The asserted "distinguishing factual circumstances" are demonstrably immaterial.

The reality of this conflict of decisions is in no way qualified or even obscured by the factors listed by respondent:

(a) "no arrangements or agreements . . . were made to provide compensation" (Resp. Br. 12-13). The aforesaid agreement, assurance and understanding as to compensation are ignored but uncontroverted.

(b) "the evidence does not establish that the equipment or processes were ever furnished to Russia" (Resp. Br. 13):

(1) As to *equipment,* petitioner has shown, without challenge by respondent, that Russia received drawings, data and information sufficient to construct and duplicate all equipment, including a dual-stage plant of the Third Protocol type, *and* that Russia has actually produced and operated such a plant (Pet. 10).

(2) As to *processes,* respondent's statement is untrue; respondent stipulated and the Court found to the contrary, that all processes, and information and know-how, *were* furnished to respondent and by it to the U.S.S.R. (Pet. App. 26-27, 31).

(c) "petitioner never delivered in writing . . . operating instructions" respecting Third Protocal equipment (Resp. Br. 13). While written operating instructions were intended to be delivered as a matter of convenience to Russian technicians, the non-delivery of such instructions is of no significance whatever in view of the stipulation and repeated findings that the Russians received *all* of the Third Protocol technical and process information and know-how *regardless of non-delivery of written operating instruction* (Pet. 10). And the Russians actually did pro-

duce and operate such equipment (Pet. 10), *without* any written summary of instructions.

(d) "no use of the equipment by anyone has been shown" (Resp. Br. 13). Respondent inexplicably disregards *its own evidence* of actual Soviet operation of a Third Protocol dual-stage plant (Pet. 10). This fact was uncontroverted. Moreover, the action is for the reasonable value of processes furnished and information disclosed, not for any particular use of the same.

Respondent's argumentation, lifted from the Opinion, is wide of the mark. The essential Third Protocol facts, as found, are (a) offer and acceptance, (b) full performance and (c) failure to pay anything therefor. Denial of liability thus presents a conflict of decisions so sharply defined that it can be neither explained nor evaded.

3. Respondent's statement intermixes the facts of the Third Protocol transaction with those of the Second Protocol.

While petitioner separates its statement of the two transactions in the chronological order in which they occurred (Pet. 3-6), respondent so commingles the facts that the following propositions require clarification:

(a) The 18-months' license agreement pertains solely and exclusively to the Second Protocol transaction.

(b) The payments thereunder were in part payment for the processes and information furnished under the Second Protocol transaction. Such payments were unrelated to the Third Protocol processes and information.

(c) The further payment mentioned by respondent (Resp. Br. 12) was also a payment on account of Second Protocol compensation, unrelated to the Third Protocol obligation.

(d) There has been no payment whatsoever to petitioner for the Third Protocol processes and information.

(e) The repeated assertions concerning Government relief from liability upon termination of the written license agreement have no application to respondent's obligation for Third Protocol compensation.

Second Protocol Case

Also unmentioned and plainly avoided by respondent are the really significant Second Protocol *findings of fact* that

(1) respondent requested petitioner's processes and information,

(2) respondent assured petitioner of payment of reasonable compensation therefor, and

(3) petitioner furnished said processes and information with the understanding that respondent (not the U.S.S.R.) would make such payment (Pet. App. 12, 14-16).

Here is the same irreconcilable conflict of decisions presented by the Third Protocol case, and here again respondent endeavours to divert attention to irrelevant matters:

1. The argument that the U.S.S.R. alone is responsible for the compensation which respondent agreed to pay to petitioner.

Petitioner dealt and contracted only with the United States and not with the U.S.S.R. At no time did petitioner ever rely upon any chance responsibility of the Soviet Union:

(a) The Court found that "*defendant desired to procure*" petitioner's equipment, processes and information

(Pet. App. 13) *"for its own account"* and "for purposes deemed important in the interest of and vital to the *defense of the United States*" (Pet. App. 12), that "it was necessary that *defendant* immediately have" the processes and information (Pet. App. 15), and that the same were "furnished . . . *to defendant* for use by or for *the defendant* . . ." (Pet. App. 15).

(b) Respondent's telegram and letter (Resp. Br. 4, 9) comprised a futile effort by respondent to effect the unilateral substitution of an obligation of the U.S.S.R. in place of respondent's obligation to petitioner. Petitioner then and thereafter repeatedly rejected every such suggestion (Tr. 1600-1602, 1607; Pl. Exs. 91, 93, 94, introduced after trial).

(c) Both parties knew that the requested disclosure of information and process license would inevitably result in extended use by the U.S.S.R. (Pet. App. 14-16). It was for that reason that petitioner insisted upon an undertaking by respondent, the only party with which it dealt, to provide reasonable compensation for such disclosure and license (Pet. App. 14-15), and respondent agreed to provide such compensation (Pet. App. 15-16).

2. The argument that "part payment" in a contract between petitioner and respondent means "full payment" by respondent and further payment by the U.S.S.R.

Respondent attempts to rationalize the "part payment" provision of the 18-months' license agreement as referring to additional payment to be made by the U.S.S.R. which was not a party to the agreement (Resp. Br. 11). Had that been the intention, the parties would have said so, but *on the contrary*, they expressly reserved petitioner's rights to "other and additional compensation" and the

obligation "of *the Government*," i.e., the United States Government, therefor (Pet. App. 20). Thus the 18 months' agreement specifically did *not* exonerate respondent from liability for any unpaid portion of petitioner's reasonable compensation.[2]

3. The argument that termination of the license agreement, which was limited to specific equipment, terminated all liability for reasonable compensation under a prior agreement unrestricted to any specific equipment.

The bulk of respondent's argument is that termination of the 18-months' license agreement of May 28, 1943 terminated respondent's liability under its assurances of and agreement to pay reasonable compensation for the processes furnished and the information and know-how disclosed by petitioner. In taking this position, respondent falls into fundamental error on three counts:

(a) Respondent disregards the agreement and assurances of October, 1942 that respondent would pay to petitioner compensation reasonable in relation to unrestricted use of the processes and to irrevocable disclosure of the previously secret information[3] (Pet. 12-13), liability for which compensation is established by the conflicting Supreme Court decisions.

(b) In representing that the 18-months' written license agreement of May, 1943 was the *only* agreement of the parties, respondent ignores the fact that said agreement,

---

[2]Respondent also refers to possible Soviet liability under the Mutual Aid Agreement and the Lend-Lease Act (Resp. Br. 11), the only applicable provisions of which are *expressly limited to patent rights and do not extend to unpatented and secret information, know-how and processes.*

[3]Of a value beyond their application to the limited amount of equipment for the limited period of time specified in the subsequent 18-months' license agreement.

which provided for a "part payment" of compensation, was no more than a partial implementation of the earlier agreement and in only partial satisfaction of the reasonable compensation to which said pre-existing agreement related (Pet. 12-13).

(c) In referring to the language of Section FOURTH (Resp. Br. 10) concerning relief to the Government from further obligation for the "payments specified in Sections SECOND and THIRD", respondent astonishingly fails to note that such payments were for the license which was granted by Section FIRST (Pet. App. 19), and that such license was for use of the processes *in "said units"* (R. 20) which are in turn described as specific equipment of a designated capacity (R. 17). Thus the license was expressly limited and partial in character, being no more than a *plant license*, authorizing and providing compensation for use of the processes and information in three specific items of equipment. It follows that respondent *grossly misstates* the facts when it says that the agreement was "intended as a complete expression . . . of the Government's obligation to compensate petitioner for the use of Petrolite processes by the Soviet Union" (Resp. Br. 10), since the agreement was expressly restricted and limited to *certain specified equipment* and the instrument itself expressly disclaimed any greater scope or effect (Pet. 13).

4. Other diversionary matter introduced by respondent.

Throughout its brief, respondent's tactic is to elaborate upon inconsequential details, with possibly misleading results:

(a) In discussing the facts, respondent's emphasis is entirely upon equipment and the parties' proposals and

purchase orders relating to equipment and equipment design, drawings, etc., all of which are irrelevant in an action relating solely to compensation for processes, information and know-how which were expressly excluded from the equipment proposals and purchase orders (Resp. Br. 2, 6).

(b) Respondent refers to the Second Protocol purchase order provision including, in the purchase price of equipment, the cost of preparing written operating instructions (Resp. Br. 3). Such operating instructions were furnished as a matter of convenience to the Russians and constituted an "expression in summarized written form of disclosures" otherwise made to the Russians during the course of the project (Tr. Vol. VIII, 1511; Commr. Rept. 9), and the matter of compensation for such disclosures was not within the scope of the proposals and purchase orders (Resp. Br. 2, 6).

Conclusion

Respondent's remarkably complete failure to meet the issues presented by the petition affirms the propriety of review of these cases.

The striking conflict of decisions cannot be reconciled, the importance of the matter cannot be impugned and the error of the decision below cannot be obscured. It is accordingly prayed that the petition be granted.

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